NAVAL POSTGRADUATE SCHOOL

MONTEREY, CALIFORNIA

THESIS

FUNDING HOMELAND SECURITY PROGRAMS AT THE STATE LEVEL: A MULTIPLE POLICY ANALYSIS

by

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December 2014

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REPORT DOCUMENTATION PAGE

Form Approved OMB No. 0704–0188

1. AGENCY USE ONLY ***(Leave blank)***	**2. REPORT DATE** December 2014	**3. REPORT TYPE AND DATES COVERED** Master's Thesis

4. TITLE AND SUBTITLE
FUNDING HOMELAND SECURITY PROGRAMS AT THE STATE LEVEL: A MULTIPLE POLICY ANALYSIS

5. FUNDING NUMBERS

6. AUTHOR(S) Robert R. Suarez

7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES)
Naval Postgraduate School
Monterey, CA 93943-5000

8. PERFORMING ORGANIZATION REPORT NUMBER

9. SPONSORING /MONITORING AGENCY NAME(S) AND ADDRESS(ES)
Des Moines Fire Department
2715 Dean Ave.
Des Moines, IA 50317

10. SPONSORING/MONITORING AGENCY REPORT NUMBER

11. SUPPLEMENTARY NOTES The views expressed in this thesis are those of the author and do not reflect the official policy or position of the Department of Defense or the U.S. Government. IRB Protocol number ____N/A____.

12a. DISTRIBUTION / AVAILABILITY STATEMENT
Approved for public release; distribution is unlimited

12b. DISTRIBUTION CODE
A

13. ABSTRACT (maximum 200 words)

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This policy option analysis reveals that PILOT programs are a viable option for sustainment funding of homeland security programs at the state and/or local level. While these options are not conclusively appropriate for all jurisdictions, they do merit further examination in areas that are highly dependent on property tax to finance the operations of public safety services.

The final recommendation of this thesis is that while these programs may not work at the state level, they may provide the necessary funding to sustain homeland security programs when applied at the local level.

14. SUBJECT TERMS
funding, PILOT, WMD funding, homeland security funding

15. NUMBER OF PAGES
109

16. PRICE CODE

17. SECURITY CLASSIFICATION OF REPORT	**18. SECURITY CLASSIFICATION OF THIS PAGE**	**19. SECURITY CLASSIFICATION OF ABSTRACT**	**20. LIMITATION OF ABSTRACT**
Unclassified	Unclassified	Unclassified	UU

NSN 7540–01-280-5500

Standard Form 298 (Rev. 2–89)
Prescribed by ANSI Std. 239–18

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Submitted in partial fulfillment of the
requirements for the degree of

**MASTER OF ARTS IN SECURITY STUDIES
(HOMELAND SECURITY AND DEFENSE)**

from the

**NAVAL POSTGRADUATE SCHOOL
December 2014**

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LIST OF ACRONYMS AND ABBREVIATIONS

CCP	Citizen Corps Program
CHDS	Center for Homeland Defense and Security
DHS	Department of Homeland Security
EMPG	emergency management planning grant
EMS	emergency medical services
ER	emergency room
FEMA	Federal Emergency Management Agency
FY	fiscal year
HAZMAT	hazardous material
HE	higher educational institution
HS	homeland security
HSGP	homeland security grant programs
IHSEMD	Iowa Homeland Security and Emergency Management Department
IMT	incident management team
ISU	Iowa State University
LEIN	Law Enforcement Information Network
LOST	local option sales tax
MC	municipal costs
MMRS	Metropolitan Medical Response System
NIMS	National Incident Management System
NPV	nonprofit property value
OPSG	Operation Stone Garden
OSHA	Occupational Safety and Health Agency
PILOT	payment in lieu of taxes
PPE	personal protective equipment
PPV	private property value
RN	registered nurse
SHSP	State Homeland Security Programs
SNPV	specific nonprofit property value
SWAT	Special Weapons and Tactics

TPV	total property value
UASI	Urban Area Security Initiative
UI	University of Iowa
UNI	University of Northern Iowa
U.S.	United States
WMD	weapons of mass destruction

EXECUTIVE SUMMARY

The issue of future funding at the state level for prevention, mitigation, and response programs is on the horizon in the emerging discipline of homeland security studies. This thesis answers the question, how can states sustain the funding of homeland security programs. Therefore, this paper examines two voluntary, non-legislative policy options for capacity, fairness/transparency, and public and political threshold of payment in lieu of taxes (PILOT) programs applied to large, community benefit nonprofits. These two variations are based on the premise that large property holding, property tax exempt organizations are disproportionately advantaged under current law and that they consume municipal services for which they do not pay.

This policy option analysis reveals that PILOT programs, whether molded after other successful programs or based on proportional value, are a viable option for sustainment funding of homeland security programs at the state and/or local level. The results indicate that these options are not conclusively appropriate for all jurisdictions; however, they do merit further examination in areas highly dependent on property tax to finance the operations of municipal public safety services. While PILOT programs have shown various levels of success throughout the nation, their use as a revenue stream to finance state and local level homeland security (HS) programs has not been studied.

While this study does show that these programs have the capacity to finance HS programs, it also recognizes the investment and needs of its' private stakeholders by identifying areas of potential collaboration. These areas, ushered in post 9/11 by federal regulation, provide the foundation for a partnership between nonprofit hospitals, higher education institutes, and HS professionals. These programs also offer community benefit nonprofits the opportunity to participate in a mutually beneficial program by nullifying any changing public and political attitudes over their property tax exemption. Training provided by state and local HS personnel would not only satisfy regulatory compliance, it could provide an unprecedented interface to train future private sector professionals in the areas of individual preparedness, resilience, and the importance of the private sector in the security of the homeland.

The final recommendation of this thesis is that while these programs may or may not be effectively implemented at the state level, they may provide the necessary funding to sustain HS programs when applied locally. The strategy of evaluating the necessity of, and then financing the critical local programs selected, provides a decentralized and customized approach to HS. In bolstering the vetted and scaled frontline programs, municipalities can focus their finances to address local threats more appropriately in the all hazards environment.

ACKNOWLEDGMENTS

First and foremost, I would be remiss if I did not start by thanking my beautiful wife, Molly. This thesis would not have been possible without your help and support. I would also like to recognize the three best kids a dad could ever be blessed with in Eli, Chloe, and Claire. Without your support and understanding, none of this would be possible. I treasure you. Your sacrifice, allowing me to write rather than play catch or just hangout, will never be forgotten.

A big thank you the citizens of Des Moines, my brave brothers and sisters of the Des Moines Fire Department, and Fire Chief John TeKippe, for taking a chance and giving me the opportunity to pursue this endeavor. As a member of cohort 1301/1302, I was blessed to be surrounded by such an outstanding group of men and women who inspired and challenged me. I would also like to thank the entire Center for Homeland Defense and Security (CHDS) staff, and in particular, my thesis advisor Rodrigo Nieto-Gomez and second reader Mary Jones.

Lastly, I would not be in this position if it were not for the support and encouragement from Bob Ingram and Dave Mathew. You have both influenced me heavily through your work ethic and your genuine care for public service. You have led by example and I am honored to walk in your path.

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I. INTRODUCTION

A. RESEARCH QUESTION

The issue of future funding at the state level for prevention, mitigation, and response programs is on the horizon in the emerging discipline of homeland security (HS) studies. This thesis answers the question, how can states sustain the funding of homeland security programs? Currently, these programs are funded by various grants, which are instruments of economic aid issued by the federal government. The grant system to establish HS response capabilities throughout the United States (U.S.) has totaled over $41 billion from fiscal year (FY) 2002–2012, a figure unsustainable by the federal government. These grants continue to diminish in total allocation, by 87.63% from FY 2003 to FY 2013, and alternative funding streams must be examined.[1] As the events of 9/11 impacted all Americans, state and local public safety officials moved quickly to establish programs to counter perceived threats, which elicited a response that allowed money to flow almost endlessly from federal coffers. The combination of a declining grant system and the inability of those federal funds to sustain these capabilities is an emerging issue. Ultimately, each state must analyze the need and capacity for each individual program, its impact on state and local budgets, and how to pay for these programs.

To examine this issue, this policy study employs a fiscal impact analysis, using two separate frameworks, to establish the viability of payment in lieu of taxes (PILOT) programs as a revenue stream to fund HS programs at the state and local levels in Iowa. These programs are designed as a voluntary means for large property tax exempt nonprofits to reimburse their host cities for the consumption of municipal services. As discussions at the state level have yet to resolve this emerging issue by either budget allocation or the identification of new revenue streams, this thesis evaluates an alternative

[1] David C. Maurer, *Testimony Before the Subcommittee on Emergency Management, Intergovernmental Relations, and the District of Columbia, Committee on Homeland Security and Government Affairs, U.S. Senate. National Preparedness: FEMA Has Made Progress, but Additional Steps Are Needed to Improve Grant Management and Assess Capabilities* (GAO-13-637T) (Washington, DC: U.S. Government Accountability Office, 2013).

to legislation in the form of a reimbursement strategy for local and state policy makers to consider. In an attempt to identify a viable alternative source of sustainable revenue, elements of the voluntary policy explore areas of mutual interests between HS, hospitals, and higher education institutions (HEI) to develop, strengthen, and enhance preparedness and response are examined. The political and public narrative is described but not measured, as it tends to be fluid and reflect local conditions. It would be imperative to account for the public and political attitudes of a specific region before moving forward with the results of this study. This policy analysis uses data for nonprofit, tax-exempt property values from the 10 largest cities in the state of Iowa to vet the capacity of PILOT programs to sustain the Iowa specialty teams. While limited in scope to the state of Iowa, this analysis may provide a framework for additional research into funding options within the evolving study of HS and its emerging problem spaces.

Former Secretary Chertoff has sent the message in spoken word when he stated that Department of Homeland Security is "not signing up to fund fusion center into perpetuity" or "we fully expect every community to continue to invest in sustaining …"[2] However, it has also been sent figuratively. As the Federal Emergency Management Agency (FEMA) slowly weans state and local agencies off federal homeland security grant dollars, states must be able to transition from already analyzed prospective policies. In lieu of making recommendations to pursue other grants and never addressing the long-term problem, this research helps rural states explore voluntary funding options.

B. SIGNIFICANCE OF RESEARCH

The intended goal of this research is to provide decision makers at the local and state level, together with those at HEIs and charitable health care organizations, with policy options for making informed and effective decisions on sustainment funding alternatives. The practical significance of this research is to offer a comparison framework to evaluate the capacity of PILOT programs at the local and state level. The most likely consumer of this research are policy makers in those jurisdictions who rely

[2] Todd Masse, Siobhan O'Neil, and John Rollins, *Fusion Centers: Issues and Options for Congress* (CRS Order Code RL34070) (Washington, DC: Congressional Research Service, 2007), http://fas.org/sgp/crs/intel/RL34177.pdf.

heavily on property tax as the principal source of budget revenue and those who house large nonprofits that own substantial, high value property.

This research may offer insight into both the consequences of use and abstinence of PILOT programs. It provides transparent frameworks, when combined with local data, may determine relevancy for jurisdictions considering these alternative revenue streams. Lastly, this research should generate a dialogue between state and city leaders with large Urban Area Security Initiative nonprofits on additional areas of collaboration in the context of HS from an all-hazards perspective.

C. BACKGROUND

As a result of the terrorist attacks on 9/11, Iowa, like all states, established the capabilities to respond to domestic acts of terrorism. These planning efforts, in this case led by the direction of the Iowa Homeland Security and Emergency Management Department (IHSEMD), soon shifted to an all-hazards approach and the development of 28E interagency contracts with municipalities and individuals. The purpose of these contracts was to build on existing strengths and provide weapons of mass destruction (WMD) and specialty response teams deployable by the state in times of disaster. These programs also consisted of a network of fusion centers and the continued support of county level emergency management offices. The regional teams, consisting of bomb, Special Weapons and Tactics (SWAT), hazardous materials, urban search and rescue, veterinary rapid response and incident management teams (IMTs) were established using various federal grant funds totaling over $15.8 million from 2005 through the present, while the overall development and implementation of HS programs in the state has totaled over $238.22 million.

To address the response components and leverage cross over skills, Iowa Homeland Security invested the federal grant money to equip seven of the largest cities in Iowa, which currently operated hazardous materials, SWAT, and bomb team capabilities. The skill sets and response experience of these established teams transitioned well to fill the perceived lack of WMD detection, mitigation, and deterrence goals established by the federal government. Operating under standardized guidelines, these capabilities provide

the core response assets to manage the initial stages of a large-scale, localized incident. Developed on the guiding principles of building on existing strengths, and eventually, transitioning to an all-hazards methodology, components of these teams have responded to more than a dozen incidents. They have worked collaboratively with the National Guard 71st Civil Support Team, and participated in annual exercises and training sessions to maximize the investment and flesh out operational inconsistencies. It is reasonable to question the continued existence of these teams, as no significant events or current intelligence indicates a credible large-scale terrorist threat. Recent evaluations have resulted in a downsizing of specific assets. Regardless, new streams of revenue generation must be evaluated, as HS programs appear to have at a minimum an immediate and near future.

The creation of a centrally designated fusion center in 2004, supported in the state by six regional centers, has become the core of the proactive arm of state level homeland security programs. Modeled after the successful Law Enforcement Information Network (LEIN) program developed in 1984, this capability has attempted to merge information from public safety, HS, and private sector stakeholders to facilitate the collection and sharing of information and intelligence.[3]

Iowa's county level emergency management functions are facilities led by one of 99 emergency management coordinators. The 99 counties are further subdivided into six planning districts overseen by a state level planner to assist in mitigation, preparedness, response, and recovery efforts.[4] These county coordinators manage and coordinate local resources, who request state or other assistance when appropriate. This system decentralizes planning and response activities, which reduces the need for state level intervention during small-scale disasters.

[3] "Iowa Department of Public Safety," Iowa Division of Intelligence, accessed August 31, 2014, http://www.dps.state.ia.us/intell/support.shtml.

[4] "County Emergency Management Overview," Iowa Homeland Security and Emergency Management Department, accessed August 31, 2014, http://homelandsecurity.iowa.gov/county_EM/county_EM_overview.html.

1. Property Tax

Property taxes affect every American either through payment of or as a recipient of the critical services funded through those dollars. Jurisdictions in all 50 states and the District of Columbia collect property taxes, which generate a stable and reliable source of income for municipalities. In total, local governments—counties, cities, townships, school districts, and special districts—obtain 30 percent of their general revenue and 75 percent of their tax revenue from property taxes, a total of $427 billion in 2010.[5] Advantages to municipalities from property tax collection, in addition to the stable revenue, include the limited mobility of the taxed item and the natural tendency of the real property value to rise, which increases the revenue without a rate change.

PILOT programs are negotiated, and voluntary payments made by property tax exempt nonprofits to help their host city offset the cost of providing the critical municipal services they receive. The critical services include fire, emergency medical services (EMS), law enforcement, and public works. With no universal guidelines and lack of a consistent framework to provide equitable and transparent rules, results vary. For example, four cities in Iowa apply no fewer than nine PILOT programs each using a different formula and inputs to calculate the payment. The policy variations being examined are more than revenue tools. They attempt to capitalize through collaborative efforts a partnership between the local governments and private sector nonprofit stakeholders. This analysis of policy relating to voluntary programs participation examines Occupational Safety and Health Agency (OSHA) first receiver training requirements as the nexus aligning response, health care, academic professional, and the public's interests.[6] If successful, it positions public and private stakeholders where they can gain access and leverage the available expertise.

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[5] Kim Reuben and Yuir Shadunsky, "State and Local Tax Policy: How Do Property Taxes Work?" Tax Policy Center, accessed April 5, 2014, http://www.taxpolicycenter.org/briefing-book/state-local/specific/property.cfm.

[6] OSHA, "Best Practices for Hospital Based First Receivers of Victims from Mass Casualty Incidents Involving the Release of Hazardous Substance," U.S. Department of Labor, January 2005, https://www.osha.gov/dts/osta/bestpractices/html/hospital_firstreceivers.html#c0.

2. Nonprofits

A delicate relationship exists between a city and its non-profit partners. Many large nonprofits have a significant financial impact on the areas in which they reside, as required to be documented in the Internal Revenue Service Tax Form 990 Schedule D. Regardless, their consumption of public services are absorbed into local budgets, which imposes a hardship on the local taxpayers. By law, the educational and medical institutions, classified as public benefit nonprofits, examined in this thesis are not required to pay property taxes on land and buildings used for charitable purposes. While Iowa residents benefit from the presence of non-profit organizations like Mercy Hospital or Drake University, this benefit carries costs, especially for the larger cities. As property taxes are a critical part of the funding stream for large portions of public safety and public works services, the core staff of the specialty teams across Iowa, the forgone tax revenue has a reductive effect on overall capacity for municipalities to provide adequate security services. For the purposes of this policy analysis**,** public benefit nonprofits, defined by the Iowa Secretary of State as organizations that provide a service or product to the public generally not offered by for-profit corporations, are the focus.[7] Examples include higher education institutions, libraries and hospitals, many times referred to as "eds and meds."

Large non-profit organizations are important to communities. They are major stakeholders in the security of this country and provide needed services, such as medical care and the pursuit of academic achievement. They impact U.S. communities by enriching them culturally, economically, and by providing lifesaving services. Undoubtedly, their community benefits extend beyond the city limits in which they reside, which benefits Iowans throughout the state. The largest also tend to own vast amounts of prime real estate.

[7] "Frequently Asked Questions," Iowa Secretary of State, accessed January 6, 2014, http://sos.iowa.gov/nonprofits/faqs.html.

Nationally, the non-profit sector accounts for roughly one tenth of the U.S. economy, whether measured by employment or by total spending.[8] They are often major employers in the communities in which they reside and provide services that the government may not otherwise provide. To narrow the focus, statewide in 2010, Iowa had over 27,000 nonprofit corporations with annual revenues of $15 billion and total assets of $37.2 billion.[9] Four of the top 10 employers in Iowa are medical or educational institutions that employ almost 23,000 people, which accounts for 14 percent of total employment.[10]

3. PILOT

PILOT programs are not new and have been implemented across the country, and take many forms and experience varying degrees of success. One consistent message worth mentioning is that the program is not one-size fits all. They can be an option for those cities reliant on property tax revenues for generating operating budget dollars. Cities across Iowa, including Des Moines, have implemented PILOT programs. These programs are examined using various frameworks to determine the relevance, capacity, and transparency of each policy variation.

D. LITERATURE REVIEW

This review looks at the relevant literature applicable to the problem, 1) state and local HS funding initiatives, and the policy option, and 2) the practice of PILOT programs. Previous studies on innovative application of funding tools are also examined to establish their relevance as a mechanism to address the emerging problem space of sustainment funding for HS programs. The review therefore looks at studies conducted on PILOT programs and analyzes their findings.

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[8] David M. Walker, *Tax-Exempt Sector: Governance, Transparency and Oversight are Critical for Maintaing Public Trust. Testimony before the House Committee on Ways and Means by Comptroller General of the United States* (GAO-05-561T) (Washington, DC: U.S. Government Accountability Office, 2005).

[9] "Number of Nonprofit Organizations by State, 2010," National Center for Charitable Statistics, April 2010, http://nccsdataweb.urban.org/PubApps/profileDrillDown.php?rpt=US-STATE.

[10] Careeronestop, "State Profile: Largest Employers, Iowa," AmericanJobCenter, 2014, http://www.acinet.org/oview6.asp?soccode=&stfips=19&from=State&id=&nodeid=12.

A 2008 paper by Kansas Senator Jay Emler analyzes sustained funding mechanisms when he looked to research the question, "What possible solutions might state and local units of government consider to lower the cost of prevention, preparation, response and recovery and/or replace the federal funding shortfall?"[11] His research examines how other states might fund HS initiatives by finding conventional options, such as "asset forfeiture, sales taxes, congestion fees and multi-year budgeting with the addition of a "rainy day" fund."[12] However, he also discovered less conventional options, such as public and private partnerships, and innovative investment strategies. The results of his research indicate that while most options have some merit, none appears to be conclusively appropriate. Senator Emler encourages the nurturing of private and public partnerships as a successful model to defray public investment while simultaneously taking advantage of access to private sector expertise. His final recommendation calls for both state and local officials to examine the individual HS programs in their jurisdiction closely to identify and articulate those most critical to that particular state. Only then should this information be presented to the budget office for consideration, which would provide an interface for stakeholders and policy makers, and create a common operating picture.

1. PILOT

Although widely implemented, a look at the relevant literature on the subject of PILOT programs indicates that no one best practice exists. A 2012 study by the Lincoln Institute of Land Policy is the most robust analysis of PILOT programs and provides a national snapshot of current trends. Results of the research show that PILOT payments have been received by at least 218 localities in 28 states, which provides a large sample pool for analysis.[13] A limitation to this particular study exists in the scope of the sample

[11] Jay Scott Emler, "How to Fund Homeland Security without Federal Dollars: State and Local Funding of Homeland Security Initiatives in Light of Decreased Support by the Federal Government" (master's thesis, Naval Postgraduate School, 2008), 5.

[12] Ibid.

[13] Adam H. Langley, Daphne A. Kenyon , and Patricia C. Bailin, *Payments in Lieu of Taxes by Nonprofits: Which Nonprofits Make PILOTs and Which Localities Receive Them* (Cambridge, MA: Lincoln Institute of Land Policy, 2012), 6.

pool. The survey was sent the 599 jurisdictions with the largest non-profit sectors, but only 171 officials responded, indicating a 28.5 percent response rate, with information for another 186 compiled through open source searches, for a total of 357 municipalities. The report admittedly underestimates the total number of PILOT programs throughout the United States due to the ad hoc nature of these programs, and explicitly warns of using the data to extrapolate national trends.

PILOT are not just collected by municipalities but states also. Works analyzing the collection and redistribution of PILOT programs reveal that Connecticut reimburses municipalities for 77 percent of the property tax revenues foregone due to the tax-exempt status of colleges and freestanding chronic disease hospitals.[14] These distributions are figured using a series of standardized calculations, which attempts to reimburse the municipality receiving funding proportional to the non-profit entities within its taxing authority. This piece confirms the possibility that avenues do exist to apply this local level tool statewide. The result of this prevailing practice is revenue used to finance local government to varying degrees. While the use of these programs has not yet become the compromise solution, PILOT are attracting growing interest from local taxing jurisdictions.[15]

Reviewing the literature into the application of PILOT programs to non-profit educational institutions reveals many different frameworks inconsistently applied. While the educational purposes of universities and colleges—teaching, research, and public service—have been recognized in federal law as critical to the well-being of U.S. democratic society,[16] municipalities are still continuing to analyze the impact of their community service in relation to their property tax exempt status. The Lincoln Institute of Land Policy study states that more than 90 percent of all PILOT revenue comes from

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[14] Office of Policy and Management, Intergovernmental Policy Division, "Colleges (Private) and General/Free Standing Chronic Disease Hospitals—Payment in Lieu of Taxes," State of Connecticut, accessed April 15, 2014, http://www.ct.gov/opm/cwp/view.asp?A=2985&Q=383134.

[15] Evelyn Brody, "All Charities Are Property-Tax Exempt, but Some Charities Are More Exempt Than Others." *New England Law Review* 44, no. 621 (2010): 622–732, accessed April 14, 2014, http://works.bepress.com/evelyn_brody/54/.

[16] "Tax Exemption for Universities and Colleges," Association of American Universities, March 2013, http://www.aau.edu/WorkArea/DownloadAsset.aspx?id=14246.

educational and medical institutions, with college payments (67.5 percent of total payments) being far more important than revenue generated by hospitals.[17] Interestingly, eight of the top 10 revenue generating PILOT payments in this study derive from institutions of higher education. This same study indicates nationally eds and meds account for 92 percent of PILOT revenue while accounting for 46 percent of those participating. The findings of this study are significant in they confirm many previously held suppositions regarding the types of nonprofits participating and the lack of significant revenue generated by these programs. Currently, Iowa is home to 60 colleges and universities, 34 of which are private nonprofits.

2. Boston PILOT

The most often analyzed and referenced program in terms of political and public acceptance is that of the city of Boston, MA, whose PILOT Task Force study not only collected and analyzed the data, but also the relationship between the city and the tax-exempt institutions. This relationship appears to be a critical component, as these programs' successes are predicated on the partnership created by the collaborative effort of the stakeholders to identify and work towards the same goal. The task force also analyzed similar programs throughout the nation and identified six core principles of a fair and balanced program. They determined those elements to be the following.

- Voluntary rather than legislative
- Applied equally to all nonprofit institutions that reach the predetermined minimum threshold of assessed property value, in Boston's case, $15 million
- Contributions should be based on a reduced percentage of assessed value of owned real estate
- Payments should be in the amount that police, fire, and other essential services represent as a percentage of the operating budget
- Calculation should include a credit for community benefits offered by the institution, but limited to 50 percent of the full PILOT payment

[17] Langley, Kenyon , and Bailin, *Payments in Lieu of Taxes by Nonprofits.*

- A phase in period of not less than five years

3. LaClair's Model

An important piece of literature to this analysis is a fiscal impact study conducted by Emily LaClair that compares the public costs associated with non-profit organization landholding in Boston with PILOT payments received under the current agreed terms.[18] The author draws into question the formula used to figure payments, by asserting the calculation using the percentage of the budget dedicated to the municipal services does not make it possible to assess the actual cost of providing these services to nonprofits. Instead, utilizing the tool of proportional valuation analysis, as described by Burchell and Listokin in their work, *Fiscal Impact Analysis: A Practitioner's Guide*, LaClair defines municipal costs as the dollar figure in the budget as opposed to a percentage, as in the Boston model. The figure is multiplied by the property valuation ratio of local nonprofit to total real property.[19] This figure is further defined in the methodology chapter of this paper, as it is used to determine the "appropriate levels of contributions based on an organization's size as calculated by the value of its landholdings."[20] A limitation to this study, as acknowledged by the author, is the formula's reliability upon the availability of valid, accurate property value data. Reliability is an important detail, as also noted in the Boston pre-task force analysis, that "tax-exempt property assessments in the City were not as accurate as taxable property assessments."[21] Reliability becomes an issue, as it is difficult to calculate the soft costs of these programs, costs borne by the municipality in reassessing exempt properties, but would be necessary on the frontend of any local analysis to ensure the accuracy of a study.

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[18] Emily K. LaClair, "Payments in Lieu of Taxes: Calculating the Fiscal Impact of Boston's PILOT Program," *The Public Purpose* (Spring 2012): 13, http://www.american.edu/spa/publicpurpose/archives.cfm.

[19] Robert W. Burchell and David Listokin, *Fiscal Impact Analysis: A Practitioner's Guide* (Washington, DC: International City Management Association, 1984), 89–125.

[20] LaClair, "Payments in Lieu of Taxes: Calculating the Fiscal Impact of Boston's PILOT Program."

[21] "Exempt Property Analysis: Exempt Property Analysis. Fiscal Year 2009," City of Boston Assessing Department, accessed April 18, 2014, https://www.cityofboston.gov/images_documents/Exempt RPT_09_WEB_tcm1-3932%5B1%5D_tcm3-8885.pdf, 4.

Burchell and Listokin cite the benefit of using a fiscal impact analysis, a tool traditionally used to project service costs and requirements for future building developments and the costs associated with land use decisions.[22] As defined in this literature, a fiscal impact analysis is a "projection of the direct, current, public costs and revenues associated with residential or nonresidential growth to the local jurisdiction(s) in which the growth is taking place."[23]

The literature does not appear to have any neutral analysis available about the community benefits of nonprofits. Municipalities in which large nonprofits reside acknowledge the benefit from their presence, many times through studies financed by the nonprofits regarding their economic impact on the local community.[24] Literature analyzing PILOT programs is critical of the ad hoc application and lack of a consistent framework of application. All authors agreed, regardless of personal or professional opinion, that these programs are not right for all communities, and careful analysis should occur in advance of any formal consideration. A 2012 study conducted by the Lincoln Institute of Land Policy identified several key findings contrary to popular beliefs of these programs. First, PILOT generate little revenue in most localities, and account for less than 1 percent of total general revenue in 165 out of 181 districts surveyed.[25] The analysis determined that these programs do not produce the kind of money to alleviate long-term revenue problems. Although data may vary between individual non-profit hospitals located in the same city, an IRS Hospital Compliance Report surveying 487 hospitals found the average and median percentages of total revenues reported as spent on aggregate community benefit expenditures were 9 percent and 6 percent, respectively, for the overall group.[26]

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[22] Burchell and Listokin, *Fiscal Impact Analysis: A Practitioner's Guide.*

[23] Robert W. Burchell and David Listokin, *The Fiscal Impact Handbook: Estimating Local Costs and Revenues of Land Development* (New Brunswick, NJ: Transaction Publishers, 2012).

[24] Harvey Siegelman and Otto Daniel, "The Economic Impact of Drake University," April 24, 2008, http://www.economicsgroup.com/reports/Drake%202008%20Study.pdf, 1.

[25] Langley, Kenyon , and Bailin, *Payments in Lieu of Taxes by Nonprofits.*

[26] IRS, "IRS Exempt Organizations Hospital Compliance Project—Final Report," accessed December 15, 2013, http://www.irs.gov/Charities-&-Non-Profits/Charitable-Organizations/IRS-Nonprofit-Hospital-Project-%E2%80%93-Final-Report, 3.

4. Iowa PILOT Programs

While no published studies are specific to Iowa PILOT programs, exploring the topic applied to non-profit medical and educational institutions in Iowa shows the inconsistent application of varying formulas based on different inputs. The state has long recognized colleges and universities as critical to the development and well-being of society. As such, most public and private higher education institutions are tax-exempt, which allows them to spend more on the mission of educating. The three public universities, essentially state assets, all voluntarily participate in programs that apply three different formulas, one for each public institution. For example, Iowa State University (ISU) participates in a long-term PILOT contract with the city of Ames, annually contributing a sum equal to 25 percent of the Ames Fire Department operating budget.[27] In contrast, the University of Northern Iowa (UNI) voluntarily contributes financial support of 16 percent of the Cedar Falls Fire Department operating budget,[28] and has since the early 1980s for protection of its 4.8 million square feet of building space.[29]

An intergovernmental agreement for fire protection services to the University of Iowa (UI) provides the Iowa City Fire Department an estimated $1.6 million in FY 2012, and $1.76 million in FY 2013 for 16.8 million square feet of campus.[30] The agreement applies a formula based on square footage of exempt property owned in comparison to the total, both exempt and taxable property, within the city limits. Additionally, for capital purchases, the university makes annual payments based upon a depreciation schedule specific to that piece of equipment.

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[27] "City of Ames, Iowa 2013/2014 Program Budget," City of Ames, accessed January 6, 2014, http://www.cityofames.org/modules/showdocument.aspx?documentid=11049, 97.

[28] See Appendix B for the memorandum of agreement between the City of Ames and the University of Northern Iowa.

[29] City of Cedar Falls/University of Northern Iowa, *Memorandum of Agreement to Compensate for Fire Protection Service Betweeen the City of Cedar Falls and the University of Northern Iowa* (Cedar Falls, IA: City of Cedar Falls, July 12, 1982).

[30] "FY2012 Budget and FY2012–2014 Financial Plan for the City of Iowa City," City of Iowa City, accessed January 23, 2014, http://www.icgov.org/site/CMSv2/file/finance/budget/FY12/FY12Budget.pdf, 19.

The Iowa City/Coralville area also benefits from additional PILOT programs involving a new UI health clinic.[31] Contributions of a little more than $1 million a year are made to the city of Coralville for the 150,000-square-foot property. This payment calculation differs from other PILOT, even those negotiated with the university, in that it is based on the value of the exterior of the clinic, which has been assessed at $28 million. The payment is adjusted annually based on the tax rate and the agreement has no end date. In addition to the clinic, the city also has received payments of $150,984 in lieu of taxes this year for three properties in the UI Research Park.[32]

The city of Des Moines currently manages 12 PILOT, with four meeting the criteria of public benefit, tax-exempt organizations that participate in these voluntary programs. The individual agreements are privately negotiated, long-term contracts. They are not applied to all non-profit organizations and no evidence of a formal set of inclusion criteria is available. The two largest medical systems, Mercy Hospital Des Moines and Unity Point, currently contribute in separate programs that make annual payments to the city of $240,000 and $160,000, respectively. These hospitals voluntarily entered into programs after litigation determined that another payment for services program based on utilities usage, the franchise fee, was an illegal tax as it was applied. This action resulted in a judgment against the city on the order of $45 million and eliminated it as a stream to fund public safety. The other two PILOT are with the religious organizations Plymouth Congregational United Church of Christ and Saint Augustine Catholic Church in the sum of $1,704 and $1,301.

In exploring the other eight PILOT, two additional classifications of tax-exempt nonprofits emerge. The first, component units, are legally separate organizations for which the elected officials of the primary government are financially accountable.[33] The unit is fiscally dependent upon the primary. The Des Moines Airport is an example of an

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[31] See Appendix C for the Iowa City/UI Health Clinic/Coralville agreement.

[32] Gregg Hennigan, "The University of Iowa Pays Coralville $1M for Tax-Exempt Clinic; City Keeps it All." *The Gazette*, March 16, 2014, http://thegazette.com/2014/03/16/university-of-iowa-pays-coralville-1m-for-tax-exempt-clinic-city-keeps-it-all/.

[33] "Summary of Statement 14: The Financial Reporting Entity," Governmental Accounting Standards Board, June 1991, http://www.gasb.org/st/summary/gstsm14.html.

organization that meets this definition. In 2011 through council action, the City of Des Moines transferred control of airport operations to the Des Moines Airport Authority, a public benefit corporation, which exempted from taxation any property used for its stated purpose.[34] In 2014, the replacement of the Iowa Air National Guard 132nd Fighter Wing with unmanned aerial vehicles altered the subsidized fire protection staffing that placed an additional burden on the municipal services provided by the host city. Previously, the National Guard made annual payments to the Airport Authority to help finance the then full-time, on base fire department. The current formula, found as a worksheet in Appendix A, is based on a cost allocation methodology used for allocating the indirect costs of police and fire protection services. A criticism of this cost allocation calculation would be that it only accounts for fire suppression response from one station, when in fact, an Alert 1 dispatch to the airport brings six pieces of fire apparatus with a minimum of 13 personnel. It also undervalues the capital and personnel costs because it uses 1/10 to calculate the total capital and operating costs when a more accurate examination reveals that Station 8 houses 1/7 of the front line response apparatus.[35] That number is an under charge of 4.28 percent for the airport's 96 fire calls involving the City of Des Moines assets.[36]

The second classification, entities not meeting the established criteria as a component unit of government, participating in programs include the water reclamation authority ($1.36 million), parking ($691,447), park and ride facility ($197,598), and the combine total of $394,831 for sanitary, solid waste and storm. The city calculates the PILOT by taking the budget—minus the revenue (paid by users of the services), and applies that against a tax rate that would be in theory equivalent to the city tax rate charged for homes—only calibrated for police and fire services. That tax rate (9.03859 calculation for FY 2014 is then applied against an insured value, instead of assessed value.

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[34] Des Moines City Council Ordinance No. 14,989.

[35] Des Moines Fire Department currently staffs nine engines, five ladders and seven ambulances.

[36] An Alert 1 response to the Des Moines International Airport dispatches no less than seven fire apparatus, while a medical alarm sends a minimum of two. A copy of the Police and Fire Service Charge Worksheet can be found in Appendix A.

Metro Waste Authority, an independent government agency designated to manage the solid waste for the surrounding 16 member communities, has negotiated a voluntary host fee in addition to the capital improvement investments and environmental benefits the service provides. This host fee, which totals over $71,000 annually, covers several MWA property tax exempt sites. Lastly, Des Moines Water Works, a privately owned, publicly managed utility, also participates in a PILOT. The utility makes an annual payment of $675,000 in lieu of taxes to offset any burden to the taxpayers for services rendered.

II. WHERE IS IOWA?

A. IOWA

Iowa is a vibrant rural state home to 3.1 million people, which makes it the 30th most populous in the United States.[37] It leads the nation in pork, corn, soybean and egg production, the main drivers of its economy. It is also a major center of the insurance industry and an early player in the political cycle hosting the first caucus of the presidential primary. Iowa tends to be a quiet and relatively safe place to live that ranks 33rd in the nation in violent crime. The state is the nation's leading producer of ethanol and largest consumer of anhydrous ammonia. Sectors tied to national interest include: (1) food and agricultural with both production and animal disease research, (2) financial as a major insurance center, (3) and to a lesser extent, the chemical and energy sectors with the production and export of ethanol.

The governor in Iowa appoints the director of the IHSEMD, a position that leverages approximately $1.8 million annually in conjunction with federal funds, to support, manage, and authorize programs and grant distribution with an authorized strength of 133 full-time positions.[38] Founded as the State Civil Defense Agency in 1965, it coordinates with county emergency managers and facilitates the distribution of state assets to declared disasters, such as flooding, tornadoes, and snowstorms. The department also finances an agreement with local public safety agencies capable of sampling, identifying, securing, managing, and rendering safe threats from human, chemical or explosive agents.

Nationally, the Homeland Security Grant Program (HSGP) distributes from distinct funds: (1) State Homeland Security Programs (SHSP), whose funds are received by every state, (2) the Urban Area Security Initiative (UASI), distributed to the 25 most

[37] "State & County QuickFacts: Iowa," United States Census Bureau, last revised July 8, 2014, http://quickfacts.census.gov/qfd/states/19000.html.

[38] Legislative Services Agency, *Budget Unit: Department of Homeland Security and Emergency Management, Fiscal Topics* (BUD 583R400001) (Des Moines, IA: Legislative Services Agency, August, 2013).

populous metropolitan areas, and (3) Operation Stonegarden (OPSG) in which qualifying states must border either Mexico, Canada, or international water borders. Iowa has not and does not qualify for or receive any UASI or OPSG funds. Iowa has benefitted from the HSGP by a total of $238.22 million with $123.2 million in SHSP.[39] While overall federal grant awards for Iowa have fallen 77 percent, SHSP funds have decreased over 90 percent during the same period.[40] Overall, $15.8 million has been spent to train and equip the specialty teams. The individual team members are public service employees who serve day to day in the capacity of law enforcement or fire or hazardous material (HAZMAT) for various city and county agencies. These agencies and individuals are figuratively the tip of the spear of the U.S. homeland security and emergency response.

In analyzing historical grant data to identify trends and minimum requirements, the low hanging fruit is discussed first. The Emergency Management Performance Grant (EMPG), a grant that requires a 50 percent local match, helps finance county level emergency managers throughout the state. The award amount has averaged $4.4 million since FY 2010, which indicates an amount sufficient to sustain these programs by the lack of additional allocations request. Examining Iowa SHSP allocations indicated that while a shortfall occurred in the FY 2012 when the award slipped to a historic low of $2.8 million, this figure is not far off the sustainment minimum, projected for this analysis to be $3.5 million. This figure is based on subsequent grants of $3.46 million and $3.7 million having covered all necessary expenses. Metropolitan Medical Response System (MMRS) and Citizen Corps Program (CCP), while no longer formally funded by the grant system, are programs that require only $500,000 a year to operate. An analysis of historical federal grant distribution indicates that Iowa would need annual baseline funding of $11.2 million to sustain current homeland security capabilities.[41] This figure is used as the baseline capacity for evaluating PILOT programs.

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[39] Historically, Iowa has received grant distributions for the following programs: Emergency Management (EMPG), Metropolitan Medical Response System (MMRS) and the Citizen Corp Program (CCP).

[40] SHSP grant awards have fallen from a FY 2004 high of $29.54 million to a low of $2.8 million in FY 2012.

[41] EMPG $4.4 million + SHSP $3.5 million+ MMRS and CCP $500,000 + annual State allocation $1.8 million= $11.2 million.

Declining federal grants, in conjunction with hard hit local budgets, have forced leaders at both the state and local levels to cut programs and service levels. Rising costs, shrinking property tax revenues, and an increased demand for services, have left many cities no choice but to decrease the strength of the local public safety force through attrition or delayed hiring practices. These practices, while in many instances necessary, undermine the integrity of the core fabric of a homeland security and emergency management strategy based on an adequately staffed local public safety system.

The IHSEMD has benefited by leveraging federal grant dollars by capitalizing on existing capabilities. The conceived force was built for the threat of the day. A historically small allocation of $2.8 million in 2012 SHSP funds led to a $571,956 shortfall from the requested $1.15 million maintenance budget of the specialty teams. Fortunately, unused, reallocated grant dollars were successfully diverted to fund the required annual statewide multi-discipline exercise, which was a fraction of that cost. The lack of funding, per intergovernmental agreement, will dissolve all response requirements of participating cities, but allow them to keep all equipment and technology purchased through the HS grant programs. Subsequent grants have been more robust that have allocated $1.23 million to the teams from a total $2.99 million total grant dollars in FY 2014.

Iowa leaders have implemented many changes in the way the state offers HS and emergency management programs. Successful models, such as the Safeguard Iowa Project, bring both public and private leaders together. Created in 2007, this voluntary coalition of stakeholders committed "to strengthen the capacity of the state to prevent, prepare for, respond to, and recover from disasters through public-private collaboration."[42] Establishing relationships, pooling resources, and taking advantage of joint training and exercise opportunities ahead of the event, are examples of activities facilitated by the partnership. Their ability to pull together stakeholders from a variety of sectors, economic strata, and differing core missions, maximizes resources and contributes private sector expertise to planning, mitigation, response, and recovery

[42] "Who We Are," Safeguard Iowa Partnership, July 11, 2014, https://safeguardiowa.wildapricot.org/who-we-are.

activities. These affiliations have paid off as Safeguard Iowa Partnerships has internally coordinated the acquisition and delivery of needed supplies, from sandbags to fresh drinking water, on several occasions.[43] The partnership currently occupies a seat in the emergency operations center as a liaison in at least three of Iowa's largest counties.

In 2014, IHSEMD leaders, after analyzing the criticality of each HS program, reduced the number of WMD HAZMAT teams from seven to three, which cut all SHSP specialty team funding to the orphaned cities. The cost savings of this strategic decision has not yet been realized; they should be significant while still providing coverage by the strategic location (northwest, south central, and east) of the remaining teams in the most populated cities in the state.

While a significant reduction of force centralizes, rather than decentralizes the assets, this decision reduces stress on a stressed grant system. The money invested in training and equipping the orphaned HAZMAT teams, a fraction of the $15.8 million, has and will continue to provide community benefit as it has left them better prepared to collect, analyze, and identify materials. Examples exist anytime a HAZMAT team is able to field screen, identify, and clear any threat associated with an unknown material, which minimizes down time for the affected organization and the need to call in additional resources. These types of incidents happen more often than thought. This decision is an example of prioritizing programs, analyzing trends and threats, and being realistic about the size and capabilities of statewide response forces. As the threat evolves, so must the evaluation and prioritization of U.S. homeland security initiatives.

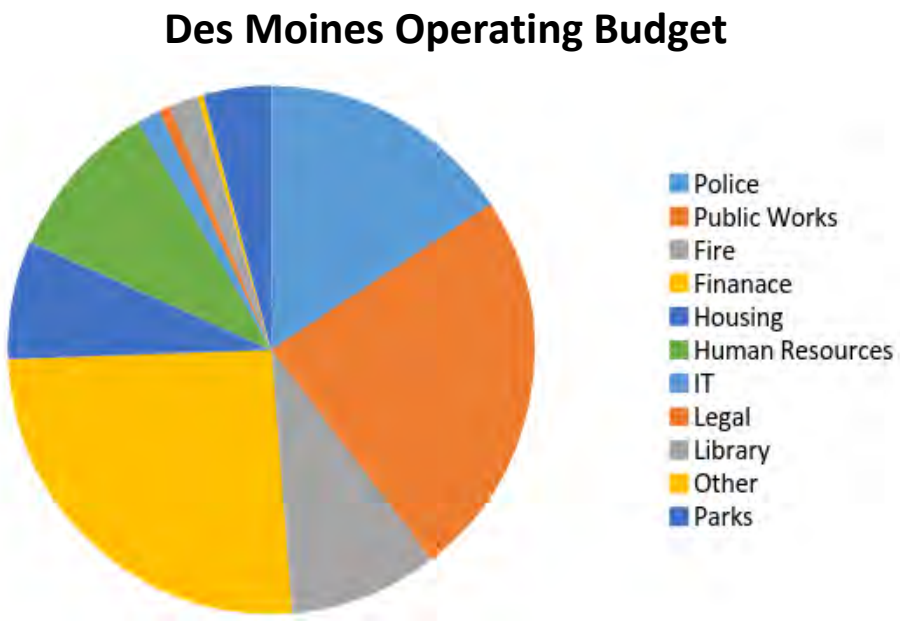
B. THE CITIES

Des Moines, the capital city of Iowa, is the 104th largest city in the United States with a land area in 2012 of 80.87 square miles and a 2012 population estimated at 206,688.[44] It is the center of a greater metropolitan area with a 2013 population of

[43] The Safeguard Iowa Partnership 2010–2013 Annual Reports contain a synopsis of events demonstrating the ability of the partnership to deliver needed resources to support emergency operations. The reports can be found at "2013 Annual Meeting," Safeguard Iowa Partnership, April 28, 2014, https://safeguardiowa.wildapricot.org/annual-meeting-2013.

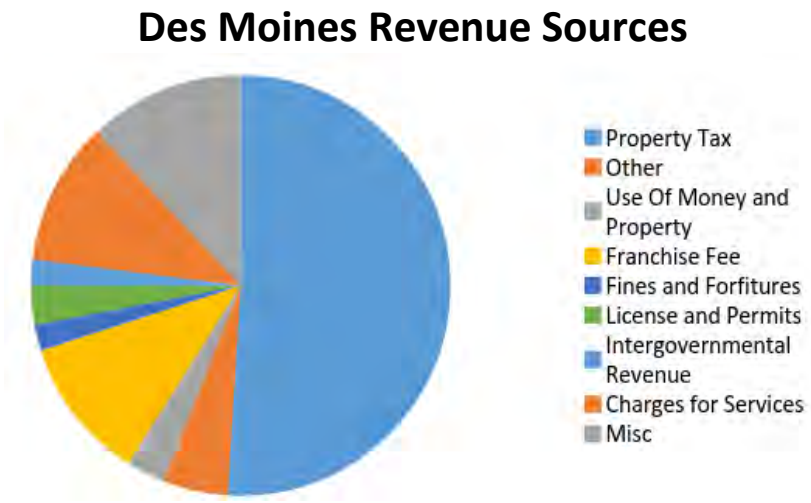
[44] "State and Quick Facts," Department of Commerce, December 17, 2013, http://quickfacts.census.gov/qfd/states/19000.html.

589,500. Des Moines relies on property taxes to supply approximately 51 percent of its $535 million FY 2015 general fund, the primary operating fund for city services, such as police, fire, parks, library, planning, code enforcement, and general administration. However, as this analysis has chosen not to focus only on the local but state level, data from the 10 largest cities in Iowa is integrated into this study to obtain a more accurate snapshot of each policy's potential. Graphs 1–4 illustrate revenue sources and expenditures from the general funds of several Iowa cities that show a high level of dependency on property tax. This dependency disproportionately affects the taxpayer in high property tax-exempt districts. In contrast to Des Moines, Iowa City, property taxes comprise 62 percent of revenue sources for the general fund, Cedar Falls 47.5 percent, Sioux City 21.7 percent, Cedar Rapids 13.4 percent, and Ames 13.1 percent.

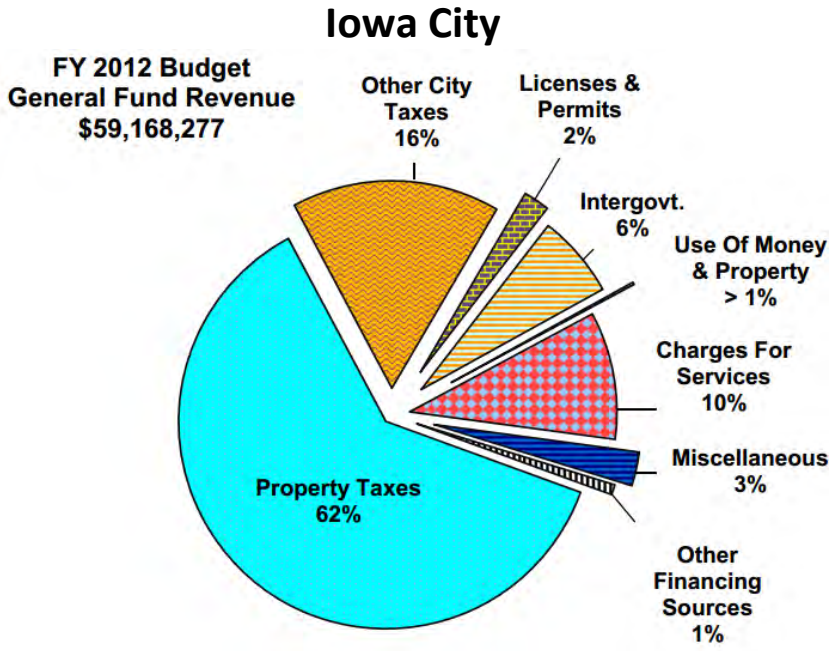


Graph 1. Des Moines FY 2014 Operating Budget by Department[45]

[45] "The Budget Process," City of Des Moines, accessed February 26, 2014, https://budget.dmgov.org/#budgetlink.



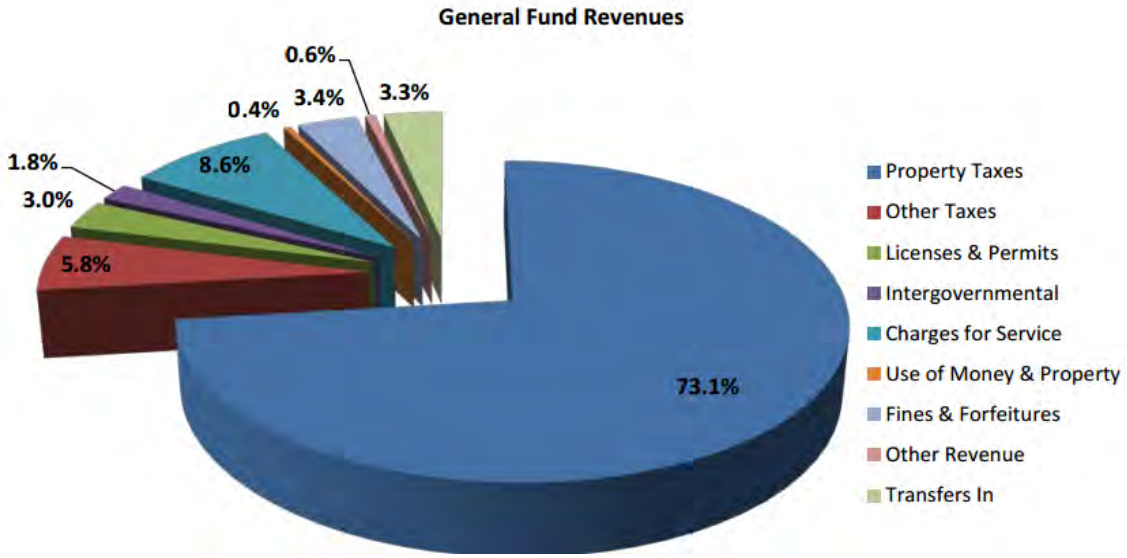
Graph 2. Des Moines General Fund Revenue Sources[46]



Graph 3. Iowa City General Fund Revenue Sources as a Percentage of Overall Revenue Collection[47]

[46] "City Manager Recommended Two-Year General Fund Operating Budget Plan FY2013 and FY2014," City of Des Moines, December 5, 2011, https://www.dmgov.org/Government/CityCouncil/WorkshopDocuments/120511%20Budget%20Presentation.pdf, slide 28.

Davenport



Graph 4. Davenport General Fund Revenue Sources as a Percentage of Overall Revenue Collection[48]

To compound the revenue problem, 40 percent of the property in Des Moines is property tax exempt, property owned by either nonprofits or city, state, or federal government, which excludes them from the tax rolls. To illustrate this problem, the following two maps were created. Map 1 highlights the property in the city owned by nonprofits (approximately 13 percent of all property) and Map 2 illustrates local, state and federal government owned parcels (approximately 27 percent of all property). These factors, combined with declining revenues, the economic downturn, and an unfavorable legal decision on the franchise fee, forced city leaders to make significant cuts to the budget including the elimination of 28 firefighter and six unfunded positions within the police department.

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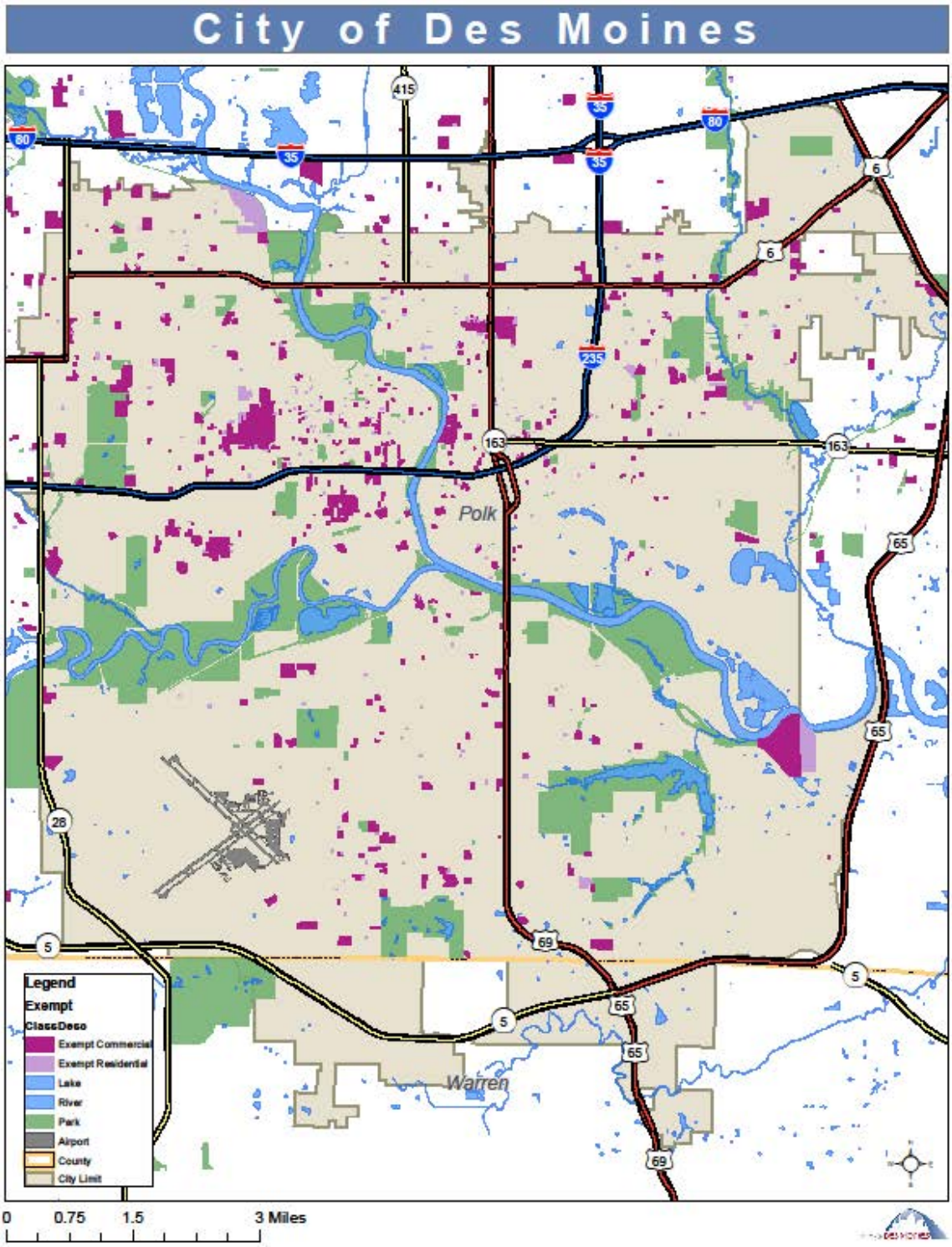
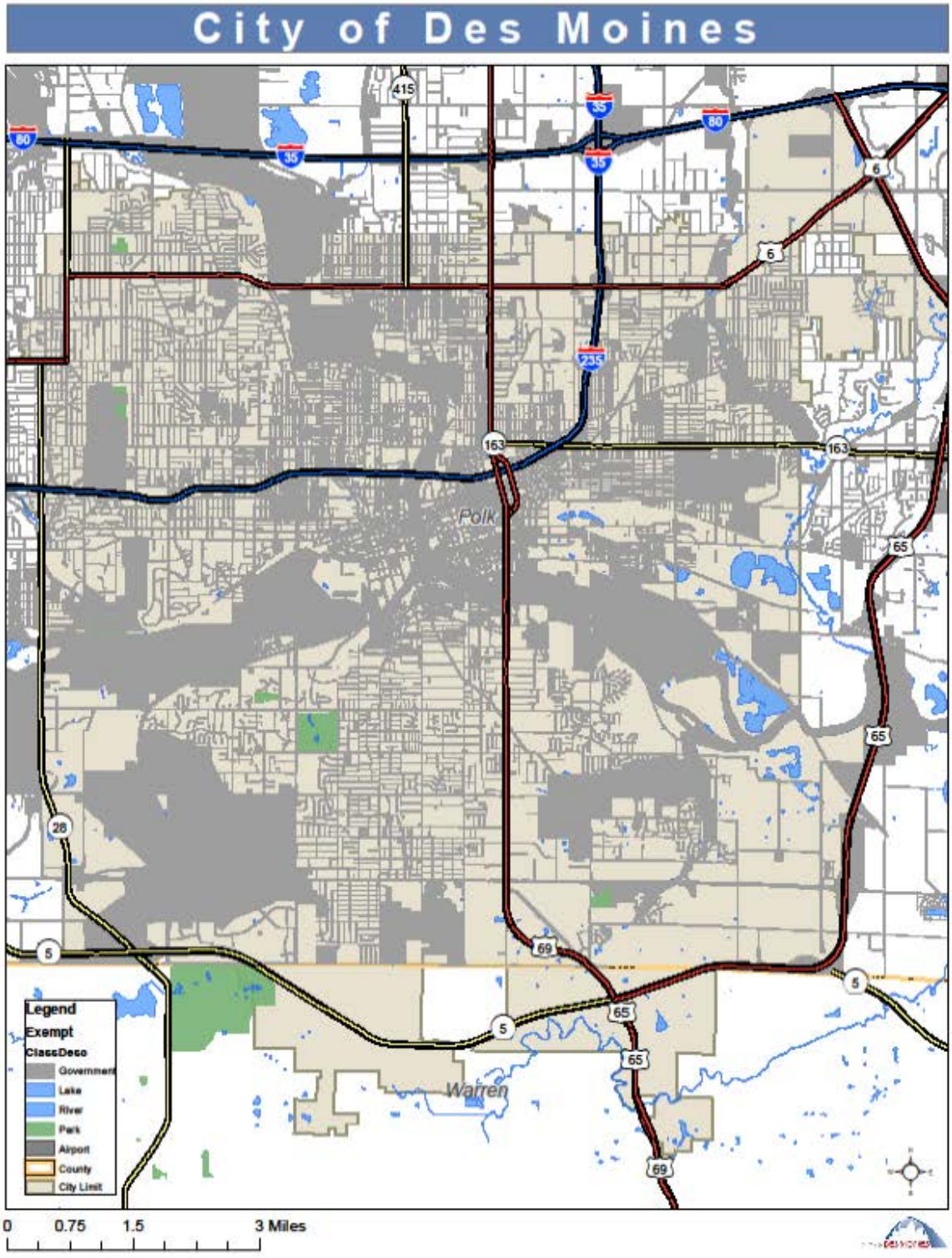
[47] "FY2012 Budget and FY2012–2014 Financial Plan for the City of Iowa City," City of Iowa City, accessed January 23, 2014, http://www.icgov.org/site/CMSv2/file/finance/budget/FY12/FY12Budget.pdf, 17.

[48] "Operating and Capital Budget Fiscal Year 2014," City of Davenport, IA, accessed May 9, 2014, http://www.cityofdavenportiowa.com/eGov/apps/document/center.egov?view=item;id=10074, 47.



Map 1. City of Des Moines—City Property Owned by Nonprofits



Map 2. City of Des Moines—Parcels Owned by Local, State, and Federal Governments

While in Iowa charitable nonprofits accounted for 8.9 percent of total employment providing 128,544 jobs, non-profit charitable and educational institutions in Des Moines own $1 billion in exempt property.[49] Health care and social assistance jobs account for 73 percent of those jobs and education 16.5 percent. On the local level, educational and health services account for 13.6 percent of total employment in the greater Des Moines area, with Mercy Des Moines alone supplying 1,589 jobs that pay at least $50,000 a year.

C. THE NEXUS

The question of why legally tax-exempt organizations would chose to participate in a program that is essentially a voluntary property tax must be addressed. Where is the value added for the medical and educational institutions willing to participate? The answer may lie in regulations that already exist.

For a partnership to be collaborative, it must be made by consenting organizations that share resources to reach a common goal. Give and take must exist. In the case of state level HS programs, the resources they bring are expertise and experience in planning, training, and response. What they lack is a dedicated revenue stream, which provides for stability and an opportunity to foster long-range strategies.

Hospitals bring expertise in patient care and protocols, while their need lies in the area of handling contaminated patients and decontamination training. With educational institutions, the critical resources they offer is their research capabilities, and analytical skills, while their need is to satisfy government requirements, such as training in the National Incident Management System (NIMS). The nexus between these stakeholders emerges at this juncture.

The "2005 Best Practices for Hospital-Based First Receivers of Victims from Mass Casualty Incidents Involving the Release of Hazardous Substances" by OSHA is the mechanism that creates the need to form a partnership between the charitable

[49] "Jurisdiction History of Assessor Adjustments by Category," Polk County Assessor, February 16, 2014, http://web.assess.co.polk.ia.us/cgi-bin/web/tt/infoqry.cgi?tt=adjustments/juris_values_cat; Jill Smith, *The Impact of Charitable Nonprofit Organizations on Iowa's Economy and Quality of Life* (Iowa City, IA: Larned A. Waterman Iowa Nonprofit Resource Center, 2007).

nonprofits and the state homeland security and emergency management officials. Recognizing that healthcare workers risk occupational exposure to chemicals when receiving contaminated patients, this document defines the role of the first receiver as "Healthcare workers at a hospital receiving contaminated victims for treatment."[50] With the recognition came tiered training requirements in relation to the employees' role in receiving contaminated patients.

The initial mandatory eight hours of training covers subject matter, such as hazards of chemical substances, selection and use of personal protective equipment (PPE), an understanding of the facilities emergency response plan, and decontamination. Annual refreshers are also mandatory and require no minimum class time in lieu of documented demonstrations of competency by the employee in core skills. An instructor from in house or a contracted vendor can conduct the training. As a low history of incidence has occurred but a high level of consequence if these incidents are mishandled exists, training should involve the interfacing agencies to understand needs and operational capabilities. This is the nexus.

Due to the capitalistic nature of the U.S. economy, a contracted first receiver class does not charge a standard price. An 8-hour class can range in cost from $500–$2,500 with a maximum of approximately 25 students, which has proved very hard for hospitals to manage. Since business does not stop for emergency room (ER) personnel when they train, leaders are forced to either run short, pay overtime, or run smaller classes to keep front line positions staffed. To ballpark the costs, say Mercy Des Moines needs 10 classes to train all necessary ER staff. At $1,500 per class, the cost is already $15,000 for the classes alone. A cursory look at ER registered nurse pay in Iowa indicates an hourly rate of $26.37 per hour. If 10 of the 20 nurses receive overtime at a rate of x1.5 per hour, that is, $316.50 multiplied by 10 nurses, or for the entire 8-hour class, a total of $18,165 annually is needed for the required training.

The WMD assets across the country are the recognized authority on the previously mentioned core competencies. In many aspects, these teams have the training,

[50] OSHA, "Best Practices for Hospital Based First Receivers of Victims from Mass Casualty Incidents Involving the Release of Hazardous Substance."

capacity, and expertise to provide the training, but also much to learn from the needs and priorities of ER and hospital personnel. The collaborative engagement would be mutually beneficial as requisite knowledge does vary between the training needs of these disciplines. Thus, an opportunity exists to leverage subject matter expertise from both stakeholders to create an interface left of boom, which increases the likelihood of an effective response to an incident.

Additionally, non-profit hospitals have been under past scrutiny reaching as high as the U.S. Senate citing a lack of charity care. The premise of tax exemption for these institutions is that they in turn provide community benefit, in the case of hospitals, charity care. In 1969, the Internal Revenue Service defined community benefit as "the legal standard that nonprofit hospitals must satisfy in order to qualify for federal tax exemption."[51] This language replaced the 1956 standard requiring hospitals to provide community benefit to the extent of their financial ability.[52] This standard has been further modified to require that community benefit nonprofits complete the IRS Form 990 Schedule D, Supplemental Financial Statements. This change, introduced as part of an investigation by Senator Charles Grassley, requires detailed financial information to include community benefit loosely defined to include services, such as unreimbursed costs associated with financial assistance, Medicaid, community health improvement and benefit operations, and other benefits.

Locally, these additional requirements have had a small impact. In 2011, Mercy Hospital Des Moines and Iowa Lutheran Hospital spent a total of 1.53 percent and 1.62 percent, respectively, of their expenses on charity care.[53] As detailed in its 2012 annual report, Mercy spent 2.38 percent of total expenses on community benefit to include not only charity care, but uncompensated Medicaid, community education and outreach,

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[51] Martha L. Summerville, Gayle D. Nelson, and Carl H. Mueller, *Hospital Community Benefits After the ACA: The State Law Landscape* (Baltimore, MD: University of Maryland, The Hilltop Institute, 2013), 2.

[52] Internal Revenue Service, *IRS Revenue Ruling 69-545* (Washington, DC: Internal Revenue Service, 1969).

[53] Tony Leys, "Hospitals Avoid Taxes Despite Little Free Care," *Des Moines Register*, October 15, 2011, http://www.desmoinesregister.com/article/20111215/NEWS09/112150003/Hospitals-avoid-taxes-despite-little-free-care.

medical education programs, subsidized health services, etc. As no formally defined federal or state of Iowa minimum percentage requirements are available, these figures are legal and valid.

This scrutiny has not been isolated to the federal level. In 2010, the Illinois Supreme Court upheld an earlier decision that state officials were justified in denying Provena Covenant Medical Center its property tax exemption for its perceived lack of providing enough charity care.[54] Although no standard exists, the court's ruling has led to the denial of exemption to three additional Illinois hospitals.[55] These decisions may prompt non-profit hospital leaders nationwide to search for long-term community partnership programs to secure their exempt status rather than defending their current standing.

These issues present a compelling argument to address the question of why a non-profit hospital would want to participate in such a program. State level homeland security programs appear to be a logical partnership as they provide what could be referred to as the ultimate community benefit. These programs theoretically provide equal benefit to all citizens, regardless of proximity to a particular nonprofit, and at the same time, fill a regulatory requirement for the participating hospital systems.

D. SCHOOLS

All schools, from K–12 to higher education institutions, if receiving federal preparedness funds, are required to support the implementation of NIMS. In recognizing the significance of these institutions within their communities, the Department of Homeland Security (DHS) and the U.S. Department of Education to recommend that all schools and HEIs, regardless of their funding structure, implement NIMS. To obtain compliance, institutions must complete the following three steps: 1) fulfill NIMS compliance requirements, 2) integrate NIMS into the educational setting, and 3) connect

[54] *Provena Covenant Medical Center et al., Appellants, v. The Department of Revenue et al.*, Appellees. 107328 (Illinois Supreme Court, March 18, 2010).

[55] Kathy Bergen, "Illinois Department of Revenue Denies Tax Exemption of 3 Hospitals," *Chicago Tribune*, August 17, 2011, http://articles.chicagotribune.com/2011-08-17/business/ct-biz-0817-hospital-ax-20110817_1_charity-care-provena-covenant-medical-center-tax-exempt-status.

schools and campuses to their community partners. This structure appears to be another productive interface as IHSEMD currently have staff dedicated to providing NIMS training and exercise development. Although the DHS has provided support in the past with documents, such as "Building a Disaster Resistant University," and courses, such as "IS362 A. Multi-hazard Emergency Planning for Schools," HS programs rarely receive an opportunity to engage such an influential audience.[56]

In addition to mitigation, preparedness, and response planning, an opportunity does exist to offer a practical, hands on HS and emergency management training. Why? Because if not you, than who? As an example, FEMA documents instruct citizens that if their water supply may be subject to contamination, to locate incoming water valve, and turn it off.[57] No initiative or mechanism is available to train people how to do this. Can higher education institutions become the place at which state HS leaders incubate or develop and foster innovation in HS and emergency management? Does training U.S. college students in the areas of preparedness and recovery create a more resilient society? While these questions cannot be definitively answered at this time, this partnership certainly would provide the mechanism to conduct further research.

Factors contributing to the overall costs associated with regulatory requirements include the number of employees, what the local market is willing to pay for the training, and relationships with community partners. These federal requirements do have an economic impact on the budgets of the affected institutes. Additionally, while no federal school security requirements exist, this newly shaped interaction between disciplines brings the stakeholders to the table in a new way, which opens up the likelihood of innovative solutions.

As referenced earlier in this study, public attitudes are changing toward property tax exemption. As more nonprofits voluntarily participate, this once blasphemous idea might become the new reality. If that is the case, right now is the opportunity for large nonprofits to align themselves with the ultimate community benefit program, HS, and

[56] "School Safety," Department of Homeland Security, October 29, 2012, http://www.dhs.gov/school-safety

[57] "Managing Water," Ready, last updated February 12, 2013, http://www.ready.gov/managing-water.

emergency management. Phrases like public/private partnerships, whole of community, and value added are just that, phrases unless serious conversations occur on how to make these phrases actionable.

Lastly, the growing level of participation by nonprofits in PILOT programs is an indication that attitudes towards exemption from both the public and nonprofit sector are changing. As mentioned earlier, regulatory requirements and recent court rulings may encourage these non-profit medical and educational institutions into proactively establishing partnerships to respond better to changing public and political attitudes towards them.

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III. METHODOLOGY

This study utilizes two separate frameworks to conduct a fiscal impact analysis on PILOT programs at both the state and local levels. The data is accessed from online public sources, such as city and county websites, including individual departments to include assessors, finance, and budget. In addition to open source Internet searches, other data sources include document searches, peer reviewed journals, conference proceedings, and tax documents, specifically IRS Form 990 Schedule D Part VI. This comparative analysis is dependent upon data that is difficult to verify as it comes from a single source, namely county assessors' offices. In many instances, exempt property has admittedly not been assessed accurately by these offices, as the property is not taxed.

Relevant to the increasingly growing debate over property tax exemption of public benefit nonprofits in relation to community benefits, this policy looks to a partnership between state level emergency response and private sector stakeholders. To frame the results of this study accurately, the sum of foregone property tax due to exemption is calculated. Although this figure is not used in the final analysis, it does establish a baseline. As of July 17, 2014, charitable hospitals in Des Moines own a total of $360 million of exempt property while educational institutions own $360.1 million.[58] Using the commercial property calculator supplied by the Polk County Assessors' website, full annual property taxes on charitable hospitals in Des Moines would generate $16.3 million and 16.5 million, respectively, as of June 1, 2014. Statewide, hospitals and higher educational institutions account for a combine total of $3.89 billion of exempt property and $108.8 million of foregone tax revenue.[59] Current statewide PILOT programs generate $9.32 million, with 47 percent being contributed from the 12 Des Moines programs.[60]

[58] Polk County Assessor, *Jurisdiction History of Assessor Adjustments by Revenue Code* (Des Moines, IA: Polk County Assessors Office, 2013).

[59] Totals can be found in Appendix A.

[60] DSM $4.4 m, ISU $1.47 m, U of I $1.76 m, UNI $542,000, and Coralville $1.15 m.

After revenues are calculated, each program is assessed for capacity to support the HS initiatives, fairness and transparency, and public and political attitudes at both the state and local level. All programs, per the Boston Taskforce recommendations, would remain voluntary, be applied to all community benefit nonprofits above the specified threshold, be based on the value of real estate, recognize and credit agreed upon community benefit programs, and be phased in.

Property tax on commercial property in Iowa is calculated using the following formula (Assessed Value x Roll back) x Tax Rate/1,000= $XXX. The roll back is a percentage calculated by the State of Iowa for a means of limiting the overall growth of a property class and is currently set at .95. The current tax rate used for this analysis is a consolidated average of the seven Des Moines tax districts that range from $46.89408 to $49.14408 per $1,000 of valuation. The average used for this analysis is $48.1258. The number 1,000 represents how the rate is applied to the valuation, or how much per every $1,000 of valuation.[61] This roll back is utilized in all calculations.

A. BASELINE

(Assessed Value x Roll back) x Tax Rate/$1,000 = Property Tax
(Assessed Value x .95) x $48.1258/$1,000 = Property Tax

The first formula is used to conduct a fiscal impact analysis applying elements of the previously mentioned Boston framework to assess the impact of this program both locally and across the state as a revenue supplement for HS programs. This method, referred to as the Des Moines 20%, tries to identify the municipal cost, the cost incurred by the city, in providing municipal services to land-holding nonprofit organization using a percentage of the full commercial property tax charge. Budget information for Des Moines reveals 20% of the operating budget funds for public safety and public works; therefore, that figure is used to calculate PILOT donations.[62] Participation threshold is determined based on property value as to show deference to smaller nonprofits' lack of financial resources to make significant contributions. Boston identified $15 million of

[61] "How to Calculate Your Property Taxes," City of Ankeny, last updated September 3, 2014, http://www.ankenyiowa.gov/Index.aspx?page=191.

[62] Per Des Moines Finance, the budget figures used to determine police, fire, and public works.

total assessed property value as the minimum threshold for participation. This study identifies $5 million of assessed property value as the inclusion threshold as Des Moines has a population equal to about one third of that of Boston. Qualifying nonprofits are then asked to make payments for municipal service consumption cost in the amount of 20 percent of what the organization would otherwise pay in commercial property taxes. Municipal costs (MC) include services from public works, police, and fire departments. Credit should be given to the organization for any property tax paid. The organization then has the opportunity to make more impact at the local level by buying down the rate by up 50 percent through mutually agreed upon community benefits activities.

B. ANALYSIS 1

Nonprofit property value=	NPV
Assessed value *roll back = ex. $xx*.95=PTV	PTV
20% of property tax value=	.20 * PTV= 20% of PTV
50% community benefit buy down=	20% of PTV- up to 50%
Results of Des Moines 20% PILOT framework=	$

The second framework uses proportional valuation as the analytical tool that may more accurately project the cost of public service. It does so by assuming that "real property values represent shares of municipal cost."[63] For the sake of comparison, determining the number of 911 activations for particular services, such as police, fire, and EMS is easily achievable, yet it is difficult to calculate the benefit provided by the municipal provision of services, such as snow removal or operations performed by public works. These services, essentially public goods, have a social benefit equal to the combined value that each resident and entity places on it.[64] Determining the cost of supplying these public services to specific non-profit entities is done using fiscal impact analysis tools to calculate the public service provision more accurately. This method helps to determine the public costs associated with nonprofit organization landholding, and compares those cost estimates with PILOT payments made by the city's institutions

[63] Burchell and Listokin, *Fiscal Impact Analysis*.

[64] John Mikesell, *Fiscal Administration: Analysis and Application for the Public Sector* (Boston, MA: Wadsworth, 2011).

of higher education and medicine. Therefore, Analysis 2 uses a proportional valuation method, the framework applied by LaClair in her analysis of Boston's Pilot program, as it appears to far more accurately assess the revenues generated in contrast to the cost of the public service provisions to specific nonprofit organizations.[65] To realize to the formula for the proportional valuation analysis, first take taxable private property value (PPV) + all nonprofit property value (NPV) = total property value (TPV). The property value of the specific nonprofit being analyzed (SNPV). Municipal costs (MC) * (SNPV/TPV) = cost of service provision to the non-profit organization.

C. ANALYSIS 2

Private property value=	PPV
Nonprofit property value=	NPV
Total property value=	PPV + NPV=TPV
Specific Nonprofit Property value=	SNPV
Municipal costs=	MC
(Public Safety + Public Works)	
Cost of service provision to nonprofit organizations=	MC * (SNPV/TPV)

For the analysis of Des Moines, $89.9 million and $11.4 billion is used respectively as the MC and the TPV. For the statewide analysis, budget data from the 10 largest cities is used to calculate a MC of $401.2 million and a TPV of $137.4 billion.[66] Excluded in the proportional valuation analysis are the three state funded universities, the state funded community colleges and all county hospitals, as they are financed using state dollars. The analysis includes 28 colleges and universities, and 21 qualifying hospitals.

Therefore, after analyzing the quantifiable effects of both transparent programs for their capacity to provide the needed revenue and their ability to equalize payment ratios across nonprofit institutions, the paper weighs the current public and political feasibility, as well as public costs associated with this policy option. The analysis of this non-legislative, voluntary policy option is relevant to HS studies in that it may provide a

[65] LaClair, "Payments in Lieu of Taxes."

[66] This figure does not include agricultural land/dwelling property values in the TPV. The statewide TPV includes all city residential and commercial property value, and the total statewide exemption for hospitals and educational institutions.

framework for sustainment funding solutions at the state level. The stated goal of this analysis is to evaluate a policy option that may contribute to equalizing the distribution of funding responsibilities at the state level for programs designed to provide security, mitigation, and response efforts to all citizens of the state of Iowa.

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IV. RESULTS

The results of the applied voluntary PILOT policy options at both the state and local level were then analyzed to see if they met the established criteria: capacity to support HS initiatives, are they fair and transparent, and what are the current public and political attitudes regarding implementation. As established earlier by examining historical grant allocation data, the minimum to fund Iowa state level HS and emergency management programs in their present form is $11.2 million annually.

As a voluntary agreement between the municipality and the nonprofits, these programs do not guarantee 100% participation. The study of the Boston PILOT program reveal a 2012 collection rate of 90.7 percent of the requested amount, and in 2013, a rate of 82.4 percent, for an average of 86.56 percent. This average collection rate is applied to more accurately estimate the potential revenue of these programs.

A. THE DES MOINES 20% PROGRAM

1. Capacity

Applied statewide, Analysis 1, or the Des Moines 20% program, reveals that at 100 percent participation, the program could generate $16.15–$32.3 million, as illustrated in Table 1. The wide range can be attributed to the flexibility of the program that allows nonprofits a level of buy down up to 50 percent. Assuming an 86.56 percent collection rate, this figure drops to $14.28–$27.95 million. This option clearly demonstrates the capacity to generate enough revenue to fund all statewide HS and emergency management programs currently financed by federal funds.

As coordinating and providing training to 50 institutions statewide by the IHSEMD will require staff and the budgeting of additional funds, a portion of the collected funds would be needed to finance both the hard and soft costs associated with the execution of this program. The five-year phase in, a caveat designed to decrease the immediate financial insult, allows the organization the opportunity to budget for the upcoming commitment, but at the same time, gradually transitions the responsibilities.

Table 1. Results of the Des Moines 20% PILOT Program Applied Statewide

Institution	Land/Building Value	Roll Back	Forgone Tax	Current PILOT	Des Moines 20%	50% buydown
Allegiant Health-Mercy Hospital Corning	$ 6,750,000	$ 6,410,000	$ 308,607	$ -	$ 61,721	$ 30,860
Central Iowa Hospital Corp (Central IA Health I	270,400,000	256,900,000	12,360,000	160,000	2,470,000	1,240,000
CR St Lukes	138,200,000	131,300,000	6,300,000	-	2,200,000	1,100,000
DSM Mercy	164,600,000	156,380,000	7,530,000	240,000	1,500,000	753,000
Dub, Findley	69,400,000	65,900,000	3,170,000	-	634,000	317,000
Fort Madison Community Hospital	28,800,000	27,360,000	1,320,000	-	263,344	131,672
Ft D, Trinity Building Corp	22,000,000	20,900,000	1,000,000	-	200,000	100,000
Great River Medical Center	127,410,000	121,000,000	5,830,000	-	1,170,000	582,512
Grinnell Regional Medical Center	28,000,000	26,600,000	1,280,000	-	256,029	128,014
IC, Mercy	125,250,000	119,000,000	5,700,000	-	1,150,000	572,637
Jennie Edmundson Hospital	75,730,000	71,950,000	3,460,000	-	692,468	346,234
Osceola Community Hospital	13,000,000	12,350,000	594,354	-	118,870	59,435
Palmer Lutheran Health Center	18,200,000	17,300,000	832,095	-	166,419	83,210
Sartori Memorial Hospital, Cedar Falls	7,800,000	7,410,000	356,612	-	71,322	35,661
SC, St Lukes	94,300,000	89,600,000	4,300,000	-	862,270	431,135
Sioux Center Community Hospital	21,450,000	20,380,000	980,683	-	196,137	98,068
St Luke's Regional Sioux City	68,600,000	65,200,000	3,100,000	-	627,272	313,636
Trinity Regional Med Center, QC	86,900,000	82,560,000	3,970,000	-	794,606	397,303
Virginia Gay Hospital	18,870,000	17,900,000	862,727	-	172,545	86,272
WLOO, Allen	121,900,000	115,800,000	5,570,000	-	1,110,000	557,320
WLOO, Covenant	92,400,000	87,800,000	4,220,000	-	844,900	422,450
WLOO, Mercy	6,250,000	5,940,000	285,747	-	57,150	28,575
all other exempt healthcare institutions	523,790,000	497,560,000				
Total Statewide Hospitals Exemption =	**$ 2,130,000,000**	**$ 2,023,500,000**	**$ 73,330,825**	**$ 400,000**	**$ 15,619,053**	**$ 7,814,994**

Institution	Land/Building Value	Roll Back	Forgone Tax	Current PILOT	Des Moines 20%	50% buydown
American Institute of Business	$ 21,600,000	$ 20,520,000	$ 987,541	$ -	$ 197,508	$ 98,754
Briar Cliff University	22,700,000	21,570,000	1,040,000	-	208,000	104,000
Buena Vista University	51,970,000	49,370,000	2,380,000	-	475,194	237,597
Central College	96,100,000	91,300,000	4,390,000	-	878,777	439,389
Clarke University	19,200,000	18,240,000	877,814	-	175,563	87,781
Coe College	54,300,000	51,590,000	2,480,000	-	496,562	248,281
Cornell College	66,100,000	62,800,000	3,020,000	-	604,460	302,230
Des Moines University	62,600,000	59,500,000	2,860,000	-	572,697	286,349
Dordt College	58,300,000	55,390,000	2,670,000	-	533,138	266,569
Drake University	198,000,000	188,100,000	9,000,000	-	1,810,000	905,246
Graceland University	37,500,000	35,630,000	1,700,000	-	342,944	171,472
Grand View University	40,800,000	38,760,000	1,870,000	-	373,071	186,535
Grinnell College	328,100,000	311,700,000	15,000,000	-	3,000,000	1,500,000
Iowa Wesleyan College	22,700,000	21,570,000	1,040,000	-	207,615	103,807
Loras College	47,960,000	45,560,000	2,190,000	-	438,522	219,261
Luther College	76,000,000	72,200,000	3,470,000	-	694,937	347,468
Maharishi University of Management	31,300,000	29,740,000	1,430,000	-	286,252	143,126
Mercy College of Health Sciences	5,600,000	5,040,000	242,554	-	48,511	24,255
Morningside College	30,800,000	29,260,000	1,400,000	-	281,632	140,816
Mount Mercy College	39,500,000	37,530,000	1,800,000	-	361,232	180,616
Northwestern College	46,000,000	43,700,000	2,100,000	-	420,619	210,310
Palmer College of Chiropractic	91,480,000	86,900,000	4,200,000	-	836,479	418,239
Saint Ambrose University	105,480,000	100,200,000	4,820,000	-	964,441	482,220
Simpson College	56,400,000	53,580,000	2,580,000	-	515,716	257,858
University of Dubuque	102,100,000	97,000,000	4,670,000	-	933,641	466,820
Upper Iowa University	63,600,000	60,420,000	2,900,000	-	581,552	290,776
Wartburg College	12,500,000	11,880,000	571,735	-	114,347	57,173
William Penn University	37,200,000	35,300,000	1,700,000	-	339,768	169,884
Total Statewide Educational Exemption=	**$ 1,825,890,000**	**$ 1,734,350,000**	**$ 83,389,644**	**$ -**	**$ 16,693,178**	**$ 8,346,832**
Total Statewide Hospitals Exemption =	**$ 2,130,000,000**	**$ 2,023,500,000**	**$ 73,330,825**	**$ 400,000**	**$ 15,619,053**	**$ 7,814,994**
Total from Analysis 1=	**$3.89b**	**$3.76b**	**$ 156,720,469**	**$400,000**	**$ 32,312,231**	**$ 16,161,826**

In the interest of analyzing the data not only at the statewide application but also at the local level, the Des Moines 20% program was then applied to the city of Des Moines. The current PILOT programs applied in the city to community benefit nonprofits generates $403,005 annually, but includes two churches that meet the minimum property

value threshold set forth in this research framework. They are included in the local analysis, but not state level, as they do not meet the established criteria of this study. In addition to no minimum threshold for inclusion, the current PILOT programs used in Des Moines also lack a far and transparent formula to determine requested payments.

Results of the 20% Des Moines model applied locally, displayed in Table 2, show the potential to generate at maximum participation between $3.17–$6.34 million, again depending on the level of buy down. Applying a collection rate of 85.56 percent generates $2.7–$5.4 million. While not enough to sustain the state level programs, this figure is enough to bolster local municipal services, which enhances the authorized strength of local response teams. This figure is a previously undetermined benefit of the program, and an additional area for future research, as the local responders in conjunction with analysts form the core of HS planning, mitigation, and response activities.

Table 2. Results of the Des Moines 20% PILOT Program Applied Only to Des Moines

Institution	Land/Building Value	Roll Back	Forgone Tax	Current PILOT	Des Moines 20%	50% buydown
American Instititue of Business	$ 21,600,000	$ 20,500,000	$ 987,540	$ -	$ 197,508	$ 98,754
DM Mercy	164,600,000	156,380,000	7,550,000	240,000	1,510,000	755,000
DM Unity Point	134,500,000	127,760,000	6,150,000	160,000	1,230,000	615,000
DM University	62,600,000	59,500,000	2,877,000	-	575,400	287,700
Drake	198,000,000	188,100,000	9,000,000	-	1,800,000	900,000
Grandview	40,800,000	38,760,000	1,865,000	-	373,000	186,500
Iowa Lutheran Hospital	52,500,000	49,880,000	2,400,000	-	480,000	240,000
Plymouth Congregational	12,980,000	12,330,000	593,440	1,704	118,688	59,344
St Augustin	9,000,000	8,550,000	414,548	1,301	82,910	41,455
Totals:	**$ 696,580,000**	**$ 661,760,000**	**$31,837,528**	**$ 403,005**	**$ 6,367,506**	**$ 3,183,753**

2. Fairness

Examining the voluntary PILOT policy option referred to as the Des Moines 20% for fairness and transparency, it appears to meet the criteria established as important to the overall success of a program. The $5 million dollar MPV threshold of inclusion (a sizeable amount in this particular market) demonstrates that this voluntary program shows deference for the ability to pay. This ability is an important feature in that these programs were not designed to burden the nonprofits, but rather supplement the costs associated with providing homeland HS and emergency management programs. By providing a contribution formula based on real estate value applied equally to each

participating member, this policy options meet the requirement of fairness and transparency.

The five-year phase in to allow the nonprofits to adapt to the financial commitment, as illustrated in Table 3, is another element of these programs that provides fair treatment and respect to the participating institutions. For example, Grinnell Regional Medical Center does not currently participate in a PILOT. If the framework from analysis 1 is applied, it would be asked to contribute $51,205 in year one, $102,411, in year two, and $153,617, $204,821 and $256,028, respectively. This sum represents the overall value of the plan, as up to 50 percent of the overall negotiated sum can be bought down through mutually agreed upon community benefit programs.

Table 3. Results of the Des Moines 20% PILOT Program Five-Year Phase Applied Statewide

Institution	Year 1	Year 2	Year 3	Year 4	Year 5
Allegiant Health-Mercy Hospital Corning	$ 12,344	$ 24,688	$ 37,033	$ 49,377	$ 61,721
Central Iowa Hospital Corp (Central IA Health Prop)	494,000	988,000	1,482,000	1,976,000	2,470,000
CR St Lukes	440,000	880,000	1,320,000	1,760,000	2,200,000
DSM Mercy	300,000	600,000	900,000	1,200,000	1,500,000
Dub, Findley	126,800	253,600	380,400	507,200	634,000
Fort Madison Community Hospital	52,669	105,338	158,006	210,675	263,344
Ft D, Trinity Building Corp	40,000	80,000	120,000	160,000	200,000
Great River Medical Center	234,000	468,000	702,000	936,000	1,170,000
Grinnell Regional Medical Center	51,206	102,412	153,617	204,823	256,029
IC, Mercy	230,000	460,000	690,000	920,000	1,150,000
Jennie Edmundson Hospital	138,494	276,987	415,481	553,974	692,468
Osceola Community Hospital	23,774	47,548	71,322	95,096	118,870
Palmer Lutheran Health Center	33,284	66,568	99,851	133,135	166,419
Sartori Memorial Hospital, Cedar Falls	14,264	28,529	42,793	57,058	71,322
SC, St Lukes	172,454	344,908	517,362	689,816	862,270
Sioux Center Community Hospital	39,227	78,455	117,682	156,910	196,137
St Luke's Regional Sioux City	125,454	250,909	376,363	501,818	627,272
Trinity Regional Med Center, QC	158,921	317,842	476,764	635,685	794,606
Virginia Gay Hospital	34,509	69,018	103,527	138,036	172,545
WLOO, Allen	222,000	444,000	666,000	888,000	1,110,000
WLOO, Covenant	168,980	337,960	506,940	675,920	844,900
WLOO, Mercy	11,430	22,860	34,290	45,720	57,150
all other exempt healthcare institutions					
Total Statewide Hospitals Exemption =	**$ 3,123,811**	**$ 6,247,621**	**$ 9,371,432**	**$ 12,495,242**	**$ 15,619,053**

Institution	Year 1	Year 2	Year 3	Year 4	Year 5
American Institute of Business	$ 39,502	$ 79,003	$ 118,505	$ 158,006	$ 197,508
Briar Cliff University	41,600	83,200	124,800	166,400	208,000
Buena Vista University	95,039	190,078	285,116	380,155	475,194
Central College	175,755	351,511	527,266	703,022	878,777
Clarke University	35,113	70,225	105,338	140,450	175,563
Coe College	99,312	198,625	297,937	397,250	496,562
Cornell College	120,892	241,784	362,676	483,568	604,460
Des Moines University	114,539	229,079	343,618	458,158	572,697
Dordt College	106,628	213,255	319,883	426,510	533,138
Drake University	362,000	724,000	1,086,000	1,448,000	1,810,000
Graceland University	68,589	137,178	205,766	274,355	342,944
Grand View University	74,614	149,228	223,843	298,457	373,071
Grinnell College	600,000	1,200,000	1,800,000	2,400,000	3,000,000
Iowa Wesleyan College	41,523	83,046	124,569	166,092	207,615
Loras College	87,704	175,409	263,113	350,818	438,522
Luther College	138,987	277,975	416,962	555,950	694,937
Maharishi University of Management	57,250	114,501	171,751	229,002	286,252
Mercy College of Health Sciences	9,702	19,404	29,107	38,809	48,511
Morningside College	56,326	112,653	168,979	225,306	281,632
Mount Mercy College	72,246	144,493	216,739	288,986	361,232
Northwestern College	84,124	168,248	252,371	336,495	420,619
Palmer College of Chiropractic	167,296	334,592	501,887	669,183	836,479
Saint Ambrose University	192,888	385,776	578,665	771,553	964,441
Simpson College	103,143	206,286	309,430	412,573	515,716
University of Dubuque	186,728	373,456	560,185	746,913	933,641
Upper Iowa University	116,310	232,621	348,931	465,242	581,552
Wartburg College	22,869	45,739	68,608	91,478	114,347
William Penn University	67,954	135,907	203,861	271,814	339,768
Total Statewide Educational Exemption=	**$ 3,338,636**	**$ 6,677,271**	**$ 10,015,907**	**$ 13,354,542**	**$ 16,693,178**
Total Statewide Hospitals Exemption =	**$ 3,123,811**	**$ 6,247,621**	**$ 9,371,432**	**$ 12,495,242**	**$ 15,619,053**
Total from Analysis 1=	**$ 6,462,446**	**$ 12,924,892**	**$ 19,387,339**	**$ 25,849,785**	**$ 32,312,231**

Per the collaborative nature of this partnership, all participating institutions would receive training in the areas of preparedness and response to satisfy any regulatory requirements if applicable. For hospitals, OSHA First Receiver and NIMS training would be provided, but an opportunity also exists to communicate initiatives, such as individual preparedness and the See Something, Say Something program. For educational institutions, the training would include the required NIMS but also may provide the interface between the law enforcement assets of state homeland HS and university security officials to develop policy and strategy to suit local security and emergency management needs as no national school safety standard exists.

When applied at the local, not state level, utilizing the same minimum threshold for inclusion, this program is fair and transparent as, illustrated in Table 4. While it does not attempt to identify the amount of municipal services consumed by a particular nonprofit, it does provide a rational framework for analysis. Earlier research published through the Lincoln Land Institute confirms that at a local level, PILOT programs generate a small percentage, in this case, 1.23 percent–3.4 percent of general revenues compared to the national average of less than 1 percent.[67] Consistent with that same report, PILOT programs are capable of providing new revenue streams to supplement local budgets while recruiting additional payers to the system.

Table 4. Results of the Des Moines 20% PILOT Program Five-Year Phase in Applied to Des Moines

Institution	Year 1	Year 2	Year 3	Year 4	Year 5
American Instititue of Business	$ 39,501.60	$ 79,003.20	$ 118,504.80	$ 158,006.40	$ 197,508
DM Mercy	302,000.0	604,000.0	906,000.0	1,208,000.0	1,510,000
DM Unity Point	246,000.0	492,000.0	738,000.0	984,000.0	1,230,000
DM University	115,080.0	230,160.0	345,240.0	460,320.0	575,400
Drake	360,000.0	720,000.0	1,080,000.0	1,440,000.0	1,800,000
Grandview	74,600.0	149,200.0	223,800.0	298,400.0	373,000
Iowa Lutheran Hospital	96,000.0	192,000.0	288,000.0	384,000.0	480,000
Plymouth Congregational	23,737.60	47,475.20	71,212.80	94,950.40	118,688
St Augustin	16,581.92	33,163.84	49,745.76	66,327.68	82,910
Totals:	$ 1,273,501.12	$ 2,547,002.24	$ 3,770,757.60	$ 5,094,004.48	$6,367,506

[67] Langley, Kenyon, and Bailin, *Payments in Lieu of Taxes by Nonprofits.*

To execute the terms of the voluntary agreement, a staff member would be necessary to coordinate, facilitate, and provide training to the local hospitals and higher education institutions. Coordination would be required between local HS and emergency management officials, fire, and local law enforcement representatives. The required training, such as OSHA First Receiver and NIMS, could be provided by the Polk County Emergency Management, the Des Moines Police Tactical WMD, and Des Moines Fire Department Hazmat/WMD team members. While this training would place additional burdens on local emergency response capabilities by contracting out bodies off already minimally staffed rosters, money collected by this program would be used to provide backfill funds, which would negate any direct local fiscal effect.

This interface also creates the opportunity to deliver applicable national initiatives at the local level, such as individual preparedness and the See Something, Say Something program. While no national school safety standard exists, the interface between the law enforcement assets and university security officials may be provided to develop policy and strategy to suit local security and emergency management needs.

3. Public/Political Tolerance

Gauging public acceptance of this program short of a survey or vote is difficult. Therefore, examining the current literature on the topic suggests majority support. Nationally, contemporary public attitude toward property tax reveals little has changed over the past 40 years. Since 1972, the U.S. Advisory Commission on Intergovernmental Relations has conducted surveys on public attitudes toward government and taxes. The survey, using a nationally representative sample group of just over 1,000 Americans, found that from 1972 until 1979, property taxes were found to be the worst and least fair tax, followed closely by the federal income tax.[68] More recently, a 2003 *Gallup*/*CNN*/*USA Today* poll found 38 percent of those polled still felt that property taxes

[68] U.S. Advisory Commission on Intergovernmental Relations, *Changing Public Attitudes on Governments and Taxes* (Washington, DC: U.S. Advisory Commission on Intergovernmental Relations, 1994), 5.

were the worst compared to 21 percent for income tax.[69] This sentiment mostly likely results because unlike income or expenditure taxes, property tax is a wealth-based tax with no direct correlation to current annual income. As property values rise, so do property taxes, despite unchanged or stagnant wages. From this information, it could be deduced that a plan that sustains current services, without raising the property tax rate, and diffuses the cost of municipal services over a wider base, would be popular among those currently paying.

Conversely, a study on attitudes toward the property tax exemption of specific categories of nonprofits indicates changing attitudes. A 2013 survey by the Indiana Advisory Commission on Intergovernmental Relations reports over 50 percent of the respondents think that universities hospitals and should make PILOT payments, while over 30 percent of the respondents in the same survey believed that churches should also be obligated.[70]

Locally, these programs have great potential, but also pose several barriers to implementation. In Des Moines, given the current dependency on property taxes, any new payers into the system would be welcome by the public and most likely would also receive political support. City leaders have indicated they are willing to listen to plans that identify new revenue streams. This program has the potential to, at a minimum, engage both public and private sector officials into talks regarding current and future needs.

Challenges to implementation would include garnering local city leaders' support, both public and private. The institutions represented in this study are fixtures in their communities and good corporate citizens. They have outstanding reputations and powerful political ties. Convincing them of the value received through this partnership would be critical.

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[69] Michael E. Bell, "Real Property Tax," in *The Oxford Handbook of State and Local Government Finance*, ed. Robert D. Petersen and John E. Ebel (New York: Oxford University Press, 2012).

[70] Kirsten Gronbjerg, and Kellie McGiverin-Bohan, "Local Government Officials Survey," Indiana University, Indiana Nonprofits, School of Public and Environmental Affairs, accessed May 5, 2014, http://www.indiana.edu/~nonprof/results/specialsurveys/localgovt.php, 1.

Support for the policy at the finance director and city manager level would be necessary. Per the job description, the city manager implements and advises the council on such things as policy matters.[71] For context, Des Moines operates a mayor/council form of city government with an appointed manager. This framework produces six voting council members, four from wards and two at large, and the mayor as the tiebreaker. Garnering enough support for council approval would be necessary for the success of this program.

B. PROPORTIONAL VALUATION MODEL

1. Capacity

Results from the application of the proportional valuation at the state level indicate a maximum revenue generation of $9.06 million, or $7.75 million at a collection rate of 85.56 percent, as illustrated in Table 3. Although short of the minimum threshold even when combined with the $1.8 million state allocation, the option does generate a significant amount of the necessary sustainment funds. The revenue would be supplied by 50 new payers asked to contribute an average of $155,000 per institution, or an average of 6 percent of what they would otherwise pay in commercial property taxes if not exempt.

[71] City of Des Moines, "City of Des Moines Departments and Authorities."

Table 5. Results of the Proportional Valuation PILOT Model Applied Statewide

Institution	Land/Building Value	Roll Back	Forgone Tax	Current PILOT	Prop Val
Allegiant Health-Mercy Hospital Corning	$ 6,750,000	$ 6,410,000	$ 308,607	$ -	$ 18,720
Central Iowa Hospital Corp (Central IA Health Prop)	270,400,000	256,900,000	12,360,000	160,000	750,135
CR St Lukes	138,200,000	131,200,000	6,300,000	-	383,390
DSM Mercy	164,600,000	156,380,000	7,530,000	240,000	456,620
Dub, Findley	69,400,000	65,900,000	3,170,000	-	192,425
Fort Madison Community Hospital, Ft Madison	28,800,000	27,360,000	1,320,000	-	79,890
Ft D, Trinity Building Corp	22,000,000	20,900,000	1,000,000	-	61,030
Great River Medical Center	127,410,000	121,000,000	5,830,000	-	353,315
Grinnell Regional Medical Center	28,000,000	26,600,000	1,280,000	-	77,670
IC, Mercy	125,250,000	119,000,000	5,700,000	-	347,475
Jennie Edmundson Hospital	75,730,000	71,950,000	3,460,000	-	210,090
Osceola Community Hospital	13,000,000	12,350,000	594,354	-	36,060
Palmer Lutheran Health Center	18,200,000	17,300,000	832,095	-	50,515
Sartori Memorial Hospital, Cedar Falls	7,800,000	7,410,000	356,612	-	21,640
SC, St Lukes	94,300,000	89,600,000	4,300,000	-	261,630
Sioux Center Community Hospital	21,450,000	20,380,000	980,683	-	59,510
St Luke's Regional Sioux City	68,600,000	65,200,000	3,100,000	-	190,380
Trinity Regional Med Center, QC	86,900,000	82,560,000	3,970,000	-	241,100
Virginia Gay Hospital	18,870,000	17,900,000	862,727	-	52,267
WLOO, Allen	121,900,000	115,800,000	5,570,000	-	338,130
WLOO, Covenant	92,400,000	87,800,000	4,220,000	-	262,121
WLOO, Mercy	6,250,000	5,940,000	285,747	-	17,345
all other exempt healthcare institutions	523,790,000	497,560,000			
Total Exemption Hospitals Statewide=	**$ 2,130,000,000**	**$ 2,023,400,000**	**$ 73,330,825**	**$ 400,000**	**$ 4,461,458**
College/University	**Land/Building Value**	**Roll Back**	**Forgone Tax**	**Current PILOT**	**Prop Value**
AIB College of Business	$ 21,600,000	$ 20,520,000	$ 987,541	$ -	$ 59,917
Briar Cliff University	22,700,000	21,570,000	1,040,000	-	62,983
Buena Vista University	51,970,000	49,370,000	2,380,000	-	144,157
Central College	96,100,000	91,300,000	4,390,000	-	266,590
Clarke University	19,200,000	18,240,000	877,814	-	53,260
Coe College	54,300,000	51,590,000	2,480,000	-	150,640
Cornell College	66,100,000	62,800,000	3,020,000	-	183,372
Des Moines University	62,600,000	59,500,000	2,860,000	-	173,737
Dordt College	58,300,000	55,390,000	2,670,000	-	161,736
Drake University	198,000,000	188,100,000	9,000,000	-	549,241
Graceland University	37,500,000	35,630,000	1,700,000	-	104,038
Grand View University	40,800,000	38,760,000	1,870,000	-	113,177
Grinnell College	328,100,000	311,700,000	15,000,000	-	910,146
Iowa Wesleyan College	22,700,000	21,570,000	1,040,000	-	62,983
Loras College	47,960,000	45,560,000	2,190,000	-	133,032
Luther College	76,000,000	72,200,000	3,470,000	-	210,820
Maharishi University of Management	31,300,000	29,740,000	1,430,000	-	86,839
Mercy College of Health Sciences	5,600,000	5,040,000	242,554	-	14,716
Morningside College	30,800,000	29,260,000	1,400,000	-	85,437
Mount Mercy College	39,500,000	37,530,000	1,800,000	-	109,585
Northwestern College	46,000,000	43,700,000	2,100,000	-	127,601
Palmer College of Chiropractic	91,480,000	86,900,000	4,200,000	-	253,743
Saint Ambrose University	105,480,000	100,200,000	4,820,000	-	292,578
Simpson College	56,400,000	53,580,000	2,580,000	-	156,450
University of Dubuque	102,100,000	97,000,000	4,670,000	-	283,234
Upper Iowa University	63,600,000	60,420,000	2,900,000	-	176,423
Wartburg College	12,500,000	11,880,000	571,735	-	34,689
William Penn University	37,200,000	35,300,000	1,700,000	-	103,074
Total Exemption Educational Institutions Statewide=	**$ 1,825,890,000**	**$ 1,734,350,000**	**$ 83,389,644**	**0**	**$5,064,189**
Total Exemption Statewide=	**$ 3,257,210,000**	**$ 3,093,810,000**	**$ 148,743,933**	**$ 400,000**	**$ 9,033,731**

Coordinating and providing training to 50 institutions statewide would require staff and the budgeting of additional funds. A portion of the collected funds would be needed to finance the PILOT program, which would further reduce the net proceeds. This option would require the state to allocate additional funds for it to work.

The proportional valuation option applied at the local level with full participation would generate $4.82 million, as illustrated in Table 4. If the two churches are excluded from the analysis, as they do not meet the inclusion criteria, the decrease is minimal, as the total remains $4.65 million. This number is a significant amount and represents 5.36 percent of the total cost to provide citywide municipal services in Des Moines.

Table 6. Results of the Proportional Valuation PILOT Model Applied to Des Moines

Institution	Land/Building Value	Roll Back	Forgone Tax	Current PILOT	Prop Val
American Instititue of Business	21,600,000	20,520,000	987,540	-	161,792
DM Mercy	164,600,000	156,380,000	7,530,000	240,000	1,230,000
DM Unity Point	134,500,000	127,760,000	6,150,000	160,000	1,000,000
DM University	62,600,000	59,500,000	2,877,000	-	469,135
Drake	198,000,000	188,100,000	9,000,000	-	1,480,000
Grandview	40,800,000	38,760,000	1,865,000	-	305,608
Iowa Lutheran Hospital	$52,500,000	49880000	$2,400,000	$0	$393,285
Plymouth Congregational	12,980,000	12,330,000	593,440	1,704	101,025
St Augustin	9,000,000	8,550,000	414,548	1,301	70,537
Totals:	**$696,580,000**	**$661,780,000**	**$31,817,528**	**$403,005**	**$5,211,382**

Strengths of this model include that it is based on real estate not budget practices, protecting against rising property values through the state roll back program, and its transparency to all. While this strength is not directly related to capacity, it is indirectly related as this adjustment feature helps stabilize revenue expectations.

2. Fairness

Similar to the first analysis, the $5 million property value threshold also applies in this case, which shows deference to an organization's ability to pay. The request for a PILOT of approximately 6 percent of any qualifying institutions exemption, when applied statewide, does not appear excessive. All participating institutions would receive

audience appropriate training in the areas of preparedness and response to satisfy any regulatory requirements where applicable.

By applying a proportional valuation, participating institutions are measured against total assessed property and their exempt peers. While most likely preferred by the nonprofits due to its lower bottom line, this program does lack the buy down option, which denies the organizations the opportunity to make a larger local impact through community benefit programs. This policy may shortchange the state, as only municipal costs from the 10 largest cities was used, and did not account in many cases for the local costs of providing services.

This framework, when analyzed at the local level, and applying the same MPV threshold, captures nine community benefit nonprofits, two more than under current practices, with five not presently participating in a program. The average requested payment from the nine institutions would be $535,555, with Drake University being the highest at $1.48 million. Application of this framework results in a request to Drake for 16.44 percent of what the institution would pay if fully commercially property taxed.

The increased requested payment in comparison to the Des Moines 20% is a result of less overall property value and a proportionally higher municipal cost due to the comparatively higher population density in the metro area and the increased number of employees required to provide the services. Although the results of this analysis produce a lower initial cost to the nonprofit institutions, the lack of the ability to buy down by 50 percent the requested payment makes this a potentially more expensive option for the participants. Tables 7 and 8 illustrate the effects of the five-year phase in.

Table 7. Statewide Proportional Valuation Five-Year Phase In

Institution	Year 1	Year 2	Year 3	Year 4	Year 5
Allegiant Health-Mercy Hospital Corning	$ 3,744	$ 7,488	$ 11,232	$ 14,976	$ 18,720
Central Iowa Hospital Corp (Central IA Health Prop)	150,027	300,054	450,081	600,108	750,135
CR St Lukes	76,678	153,356	230,034	306,712	383,390
DSM Mercy	91,324	182,648	273,972	365,296	456,620
Dub, Findley	38,485	76,970	115,455	153,940	192,425
Fort Madison Community Hospital	15,978	31,956	47,934	63,912	79,890
Ft D, Trinity Building Corp	12,206	24,412	36,618	48,824	61,030
Great River Medical Center	70,663	141,326	211,989	282,652	353,315
Grinnell Regional Medical Center	15,534	31,068	46,602	62,136	77,670
IC, Mercy	69,495	138,990	208,485	277,980	347,475
Jennie Edmundson Hospital	42,018	84,036	126,054	168,072	210,090
Osceola Community Hospital	7,212	14,424	21,636	28,848	36,060
Palmer Lutheran Health Center	10,103	20,206	30,309	40,412	50,515
Sartori Memorial Hospital, Cedar Falls	4,328	8,656	12,984	17,312	21,640
SC, St Lukes	52,326	104,652	156,978	209,304	261,630
Sioux Center Community Hospital	11,902	23,804	35,706	47,608	59,510
St Luke's Regional Sioux City	38,076	76,152	114,228	152,304	190,380
Trinity Regional Med Center, QC	48,220	96,440	144,660	192,880	241,100
Virginia Gay Hospital	10,453	20,907	31,360	41,814	52,267
WLOO, Allen	67,626	135,252	202,878	270,504	338,130
WLOO, Covenant	52,424	104,848	157,273	209,697	262,121
WLOO, Mercy	3,469	6,938	10,407	13,876	17,345
Total Exemption Hospitals Statewide=	**$ 892,292**	**$1,784,583**	**$2,676,875**	**$3,569,166**	**$4,461,458**
College/University	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**
AIB College of Business	$ 11,983	$ 23,967	$ 35,950	$ 47,934	$ 59,917
Briar Cliff University	12,597	25,193	37,790	50,386	62,983
Buena Vista University	28,831	57,663	86,494	115,326	144,157
Central College	53,318	106,636	159,954	213,272	266,590
Clarke University	10,652	21,304	31,956	42,608	53,260
Coe College	30,128	60,256	90,384	120,512	150,640
Cornell College	36,674	73,349	110,023	146,698	183,372
Des Moines University	34,747	69,495	104,242	138,990	173,737
Dordt College	32,347	64,694	97,042	129,389	161,736
Drake University	109,848	219,696	329,545	439,393	549,241
Graceland University	20,808	41,615	62,423	83,230	104,038
Grand View University	22,635	45,271	67,906	90,542	113,177
Grinnell College	182,029	364,058	546,088	728,117	910,146
Iowa Wesleyan College	12,597	25,193	37,790	50,386	62,983
Loras College	26,606	53,213	79,819	106,426	133,032
Luther College	42,164	84,328	126,492	168,656	210,820
Maharishi University of Management	17,368	34,736	52,103	69,471	86,839
Mercy College of Health Sciences	2,943	5,886	8,830	11,773	14,716
Morningside College	17,087	34,175	51,262	68,350	85,437
Mount Mercy College	21,917	43,834	65,751	87,668	109,585
Northwestern College	25,520	51,040	76,561	102,081	127,601
Palmer College of Chiropractic	50,749	101,497	152,246	202,994	253,743
Saint Ambrose University	58,516	117,031	175,547	234,062	292,578
Simpson College	31,290	62,580	93,870	125,160	156,450
University of Dubuque	56,647	113,294	169,940	226,587	283,234
Upper Iowa University	35,285	70,569	105,854	141,138	176,423
Wartburg College	6,938	13,876	20,813	27,751	34,689
William Penn University	20,615	41,230	61,844	82,459	103,074
Total Exemption Educational Institutions Statewide=	**$1,012,840**	**$2,025,679**	**$3,038,519**	**$4,051,358**	**$5,064,198**
Total Statewide=	**$1,806,748**	**$3,613,496**	**$5,420,244**	**$7,226,992**	**$9,033,740**

Table 8. Proportional Valuation Model Applied to Des Moines

Institution	% of Property Tax	Year 1	Year 2	Year 3	Year 4	Year 5
American Instititue of Business	16.38%	32,358	64,717	97,075	129,434	161,792
DM Mercy	16.33%	246,000	492,000	738,000	984,000	1,230,000
DM Unity Point	16.26%	200,000	400,000	600,000	800,000	1,000,000
DM University	16.30%	93,827	187,654	281,481	375,308	469,135
Drake	16.44%	296,000	592,000	888,000	1,184,000	1,480,000
Grandview	16.39%	61,122	122,243	183,365	244,486	305,608
Iowa Lutheran Hospital	16.30%	$ 78,657	$ 157,314	$ 235,971	$ 314,628	$ 393,285
Plymouth Congregational	17%	20,205	40,410	60,615	80,820	101,025
St Augustin	17%	14,107	28,215	42,322	56,430	70,537
Totals:	**16.49%**	**$1,042,276**	**$2,084,553**	**$3,126,829**	**$4,169,106**	**$5,211,382**

3. Public Political Tolerance

Garnering enough political support throughout the state to implement these programs effectively would be challenge. As stated by Senator Emler, "Most politicians are reluctant to pass tax increases, regardless of type."[72] While a voluntary program, a significant public and private interconnection has direct political implications. In many cases, these institutions are the largest employers in their counties or districts. The presidents and board members of these organizations are influential and may carry heavy political influence.

Much like the Des Moines 20% model, the potential locally for this program is great, but dependent on specific local conditions. Consistent with prior research, these programs are not appropriate for all municipalities and tend to be most successful in areas with a combination of large property owning nonprofits that are highly property tax dependent for revenue generation.

Locally, support for this policy would be consistent with those mentioned in the first analysis, as Des Moines does qualify as a city highly dependent on property tax with a significant presence of large nonprofits. The need for additional contributors is a frequent topic of conversation at both public budget hearings and city council meetings. This policy may be a viable option given current local public and political support and at a minimum should receive additional enquiry.

[72] Emler, "How to Fund Homeland Security without Federal Dollars."

C. RECOMMENDATIONS

This study, while confirming some findings from previous studies, has also resulted in some unexpected outcomes. None of these outcomes is a conclusive solution to address the issue of state level funding of homeland security programs for all states

The research does indicate that applied locally, these programs do have the capacity to support local HS programs in cities that house numerous, large community benefit nonprofits willing to partner with local responders. In states with regional coverage from specialty response assets, these programs have the ability to supplement not only local fire and law enforcement forces, but also emergency management and fusion center functions.

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V. ALTERNATIVE POLICY OPTIONS

Alternative policy options to consider to answer the question of funding HS programs at the state level should be evaluated by means of the same criteria used previously: capacity, fairness/transparency and public/political threshold. This section briefly explores and evaluates alternative options to PILOT programs. While not all inclusive, this list does include programs that have been in other applications with varying degrees of success and at least one other controversial policy currently being vetted in other states.

A. FRANCHISE FEE

The franchise fee, a 5 percent fee received by the City of Des Moines from all utility users, is based on monthly costs for natural gas and electrical service as billed by the MidAmerican Energy Company. Its relevance to state level HS programs is that its prior use, or misuse, of excess funds has been to supplement public safety at the local level. Permitted by state law, and as such, collected from gas and electric utilities since 1960, these fees are collected by almost 75 percent of Iowan cities.[73] Franchise referenda were approved by Des Moines voters as recently as 1987, and are still in use today. Gas and electric franchise fees have a big advantage for property tax payers as the fee spreads the cost of municipal services to virtually all benefited parties within the city. The fee is paid by all electric and gas customers, including tax exempt and government owned property. Collecting the franchise fee from government and tax-exempt property helps offset the cost of city government by more evenly distributing it to all benefited properties, not just those that pay property taxes.[74] In 2004, the Iowa Legislature phased out the state sales tax on utility bills, which created an opportunity for the Des Moines City Council to maintain city services, and simultaneously, reduce property tax rates by raising the gas and electric franchise fees to help eliminate the structural deficit. In 2004

[73] "Franchise Fee," City of Des Moines, accessed April 5, 2014, https://www.dmgov.org/Departments/CityManager/Pages/FranchiseFee.aspx.

[74] Richard A. Clark, "The Franchise Fee Refund," City Source, Fall 2012, http://www.dmgov.org/Departments/CityManager/Pages/PublicInformation.aspx?tabID=4, 2.

and 2005, the city increased the franchise fee to 3 percent, and then 5 percent, and used the excess revenue to pay for police officers, fire fighters, library services, and low-income energy assistance. In addition, the new franchise revenue was used to lower property tax rates by over 4 percent, the largest tax rate reduction in recent memory. An ensuing lawsuit brought against the city ultimately resulted in the court's decision that required a portion of the franchise fees collected during the time period 2004 to 2009 to be refunded. Recent legislative action, combined with the passing of a local bond referendum, allows the city to raise the franchise fee temporarily to 2.5 percent for 7 years, with all capital collected used to refund the $40 million dollar judgment.

The practice is currently being employed by 75 percent of the state, which indicates little room to generate additional funds, and lacks the necessary capacity to support HS programs. Although it appears to be one of the more fair and transparent programs when used properly, it requires legislation and carries a stigma due to the previous misapplication of the program. Furthermore, the practice of collecting more than necessary to facilitate and maintain the utilities' right of way, and the negative connotation as an illegal tax, this option appears unlikely as a funding source due to its inability to garner both political and public support.

B. LOCAL OPTION SALES TAX

A local option sales tax (LOST) is a special purpose tax levied often used to raise funds for a specific project implemented at the city or county level. It is extremely popular in the state, with 802 of Iowa's 946 cities collecting it in 2013, as did the unincorporated area of 93 of Iowa's 99 counties.[75] Currently, only two of the largest cities, Des Moines and Iowa City, do not collect it.

LOST are imposed only when a majority of voters in a special election approve of the measure. Prior to the vote, this option must be presented via a petition to the county board of supervisors containing the signature of at least 5 percent of the people in the

[75] Emily Schettler, "Bill Would Help Cities Pass Local Option Sales Tax," *The Des Moines Register*, March 16, 2014, http://www.desmoinesregister.com/story/news/politics/2014/03/17/-bill-would-help-cities-pass-local-option-sales-tax/6512039/.

county who voted in the previous state general election.[76] While the election is countywide, the tax only applies in the area of the county in which a majority votes in favor of the tax. Votes cannot be held sooner than 84 days after notice and no sooner than 60 days after the auditor publishes the notice of the proposition.[77]

As these programs tend to diversify the tax base by capturing a fraction of the spending dollars from visitors and nonresidents, they can provide additional revenue. In addition to their already ramped use, LOST referendum votes treat all cities contiguous to each other as one large incorporated area, even if located in different counties, subject to a joint county agreement.[78] The tax can then only be implemented if the majority of voters in the total contiguous area approve the tax measure. Historically, this issue has been very difficult for a metropolitan city like Des Moines in that the surrounding contagious cities do not suffer from the same property tax base issues, which has led to a lack of need, and therefore, a lack of support. A study conducted by Cynthia L. Rogers on the effect of tax rate and interjurisdictional tax competition concludes that while urban influence is not strongly related to LOST rates, it does appear to influence the relationship between rates and revenue.[79] These findings are germane as Iowa is recognized as being a predominantly rural state. This study suggests that the size of the cities within a county is more influential in determining the impact of a LOST than its geographical relationship to metropolitan areas.[80]

Statewide, this policy appears to demonstrate the capacity to fund HS programs, although its widespread current use indicates that the funds being generated are being spent elsewhere. Additionally, while transparent, the policy lacks fairness as it would disproportionately affect the larger cities that generate a higher level of qualifying

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[76] Iowa Department of Revenue, "Iowa Local Option Sales Tax (LOST) Questions and Answers," *Iowa Department of Revenue*, Febuary 4, 2010, http://www.iowa.gov/tax/educate/78601.html.

[77] Ibid.

[78] Ibid.

[79] Cynthia L. Rogers, "Local Option Sales Tax (LOST) Policy on the Urban Fringe," *The Journal of Regional Analysis and Policy* (Mid-Continent Regional Science Association) 34, no. 1 (2004): 48.

[80] Ibid.

economic activity and has no bearing on a property owners. Lastly, public and political support already exists for this noncontroversial policy.

C. LEGALIZATION AND TAXATION OF RECREATIONAL MARIJUANA USE

HS programs could also benefit from the recent trend of the legalization of marijuana. Annually, the United States spends $51 billion to fight the war on drugs, with a Cato Institute study indicating a national savings of $8.7 billion a year from the legalization of the drug.[81] The connection between HS and marijuana lies in the nature of drug trafficking and the elements that surround it. Efforts to detour transnational crime have a direct impact on HS in that these criminal elements can be a threat to this nation's personal safety. Refocusing efforts at both the federal and state level would allow redirection of current funds used to discourage the trafficking of marijuana to supplement state level HS programs.

In 2014, Iowa Governor Terry Brandstad legalized the medical use of cannabis oil extract in the treatment of severe juvenile epileptic seizures. The extract is reported to contains very little of the chemicals responsible for the intoxicating effects of the marijuana, and therefore, are a far cry from the legalization of the recreational use of the drug. The legalization for recreational use policy, currently in its infancy and being incubated in the states of Colorado and Washington, has generated $17.7 million in taxes, licensing, and fees in the first four months of 2014 for Colorado.[82] A report by the Cato Institute indicates that the legalization of marijuana would result in the savings of approximately $8.7 billion annually.[83]

More time is needed to collect data points in reference to the potential revenue generation tool. Analysis of potential of this policy at this point would be nothing more

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[81] Jeffrey Miron and Katherine Waldock, "The Budgetary Impact of Ending Drug Prohibition," CATO Institute, September 27, 2010, http://www.cato.org/publications/white-paper/budgetary-impact-ending-drug-prohibition.

[82] "Colorado Department of Revenue," Colorado Department of Revenue, accessed July 7, 2014, http://www.colorado.gov/cs/Satellite/Revenue-Main/XRM/1251633259746.

[83] Jeff Miron and Katherine Waldock, "The Budgetary Impact of Ending the War on Drugs," Cato Institute, 2010, http://www.cato.org/sites/cato.org/files/pubs/pdf/DrugProhibitionWP.pdf#sthash.m071z8bK.dpuf.

than an uneducated guess. As the novelty wears off and the market stabilizes to a more predictable rate, further analysis will be necessary. Until that point, the capacity of this tool as a means of sustainment cannot be accurately identified.

While legalization with regulation appears fair and transparent, addiction to the mind-altering substance cannot be overlooked. Although the supporters on each side may debate the exact figures on the subject of dependence, support for the 1994 National Institute on Drug Abuse survey indicates a rate of approximately 9 percent.

In reference to public and political support, this subject appears to be mixed bag. A 2013 national Gallup poll shows that a clear majority of Americans questioned, in this case 58 percent, are in favor of the legalization of the drug.[84] As for the political support of this policy, analysis of the same poll suggests that party affiliation has a strong bearing on attitude with republicans overwhelming not in support (35 percent), while democrats and independents tend to strongly support (65 percent and 62 percent, respectively).[85]

D. CONCLUSION

None of these alternative policies is an immediate solution to the issue of state level HS program funding. While legalization of recreational marijuana appears to hold the greatest financial potential, the lack of long-term data on the social ramifications of such a program do not exist. Additionally, all three options require legislative action that could reduce local control to identify and implement solutions. While future research into alternative options may include any of the previously mentioned three, currently none is conclusively appropriate to address this funding issue.

[84] Art Swift, "For First Time, Americans Favor Legalizing Marijuana," *Gallup Politics*, October 22, 2013, http://www.gallup.com/poll/165539/first-time-americans-favor-legalizing-marijuana.aspx.

[85] Ibid.

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VI. IMPLEMENTATION

Implementation of either of these policy options would require a strategy that focuses on garnering support from three distinct groups: the public, those who recommend and guide policy, and the private sector stakeholders. Lack of support from any one of these vested groups would likely result in a failure to change the status quo. These options capitalize on needs and bring together public and private entities looking to create a long-term, sustainable relationship. Ensuring support of the public, those who have political power, and those who have influence are the key to successful implementation.

A. THE PUBLIC

Nationally, contemporary public attitude toward property tax reveals little has changed over the past 40 years. Since 1972, the U.S. Advisory Commission on Intergovernmental Relations has conducted surveys on public attitudes toward government and taxes. The survey, using a nationally representative sample group of just over 1,000 Americans, found that from 1972 until 1979, property taxes were found to be the worst and least fair, followed closely by the federal income tax.[86] More recently, a 2003 Gallup/CNN/USA Today poll found 38 percent of those polled felt that property taxes were the worst compared to 21 percent for income tax.[87] This response is most likely because unlike income or expenditure taxes, property tax is a wealth-based tax with no direct correlation to current annual income. As property values rise, so do property taxes, despite unchanged or stagnant wages.

Conversely, a study on attitudes toward the property tax exemption of certain nonprofits indicates attitudes are changing. A 2013 survey by the Indiana Advisory Commission on Intergovernmental Relations reports over 50 percent of the respondents think that universities and hospitals should make PILOT payments, while over 30 percent

[86] U.S. Advisory Commission on Intergovernmental Relations, *Changing Public Attitudes on Governments and Taxes.*

[87] Bell, "Real Property Tax."

of the respondents in the same survey believed that churches should also be obligated.[88] More specifically, a 2008 Iowa Fiscal Partnership titled, "Who Pays Iowa Taxes?" suggests that property taxes are fairly proportional as a share of income for most Iowa taxpayers. On average, approximately 2.3 percent to 2.8 percent of income goes to property taxes for all but the top 1 percent of Iowa taxpayers by income, with that group paying just 1.9 percent of their income toward property tax.[89]

The biggest issue arising from tax exemption from a public perspective is that it disproportionately advantages the larger nonprofits. Expressed another way, those that own the most property derive the greatest benefit from this policy. This advantage is clear when examining nonprofits that own no tangible property, as they do not benefit from this exemption. In comparison, Drake University in Des Moines saves $9 million per year in property tax exemption alone. This disproportionate advantage is also compounding, which allows the largest nonprofits to reinvest the savings annually into other areas of their mission. This inequity between nonprofits, and more importantly, the perception of this advantage by the tax paying public, further bolsters support for these programs.

Regardless, if PILOT plans are implemented at either the local or state level, current property taxpayers benefit the most. By subsidizing public safety at the local level, whether through local or statewide implementation, the strength of the force from which to respond with is also increased. Funding it with money from property currently off tax rolls provides increased service with no tax increase to the general public. However, local taxpayers do lose much of the direct effective tax revenue as the scope grows from local to state. In this plan, the tax burden is distributed over a wider playing field, which lessens the impact on the individual payer while sustaining services.

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88 Gronbjerg and McGiverin-Bohan, "Local Government Officials Survey."

89 "Who Pays Iowa Taxes?" Iowa Fiscal Partnership, November, 10, 2008, http://www.iowafiscal.org/research/081110-WhoPays.html.

B. POLITICAL

The Iowa General Assembly is composed of 50 senators and 100 representatives. The democrats currently have the majority in the senate, whereas the republicans control the house and governorship. Despite owning a massive amount of tax-exempt property in the capital city of Des Moines, the state does not and has not ever made payments to the city. Meanwhile, the same state government is perfectly okay with the three state universities, schools subsidized by state dollars, engaging into PILOT with their hosting communities. The state is the governing agency that gives taxing districts the authority to establish rates. As it is not a legislative issue, little can be expected from this group although it does wield the power of influence.

Governor Terry Bandstand, nearing 20 years of service between two terms in office, is the former president of Des Moines University (2003–2009), one of the exempt educational institutions directly impacted by this plan. The governor, passing the largest commercial property tax cut that will reduce the taxable value of commercial and industrial property by 10 percent, has shown deference to growth and development as opposed to higher tax policies, which has decreased the chances of his support on this issue.[90]

Certainly, the support of the IHSEMD would be essential to moving this forward, in addition to footing the brunt of the cooperative relationship, as it would most likely be required to schedule, track, and conduct the training required by funding partners. The true value of this program should be measured with this interaction.

The topic of approaching nonprofits to pay for city services has been a sensitive issue. The city of Des Moines operates a mayor/council form of city government with an appointed manager. This framework produces six voting council members, four from wards and two at large, and the mayor as the tiebreaker. At the local level, city leaders are painfully aware of current revenue limitations and some have indicated a least an interest

[90] "Gov. Branstad to Sign Largest Tax Cut in Iowa History in Hiawatha," Office of the Governor of Iowa, Terry Branstad, June 5, 2013, https://governor.iowa.gov/2013/06/gov-branstad-to-sign-largest-tax-cut-in-iowa-history-in-hiawatha-june-12-3/.

in talking about cooperative solutions with nonprofits.[91] If the policy passed all legal scrutiny, it would require the support of four of the council members, two of whom have already demonstrated a willingness to sit down and talk.

The city manager's office is currently vacant, and filled by interim management. A recent search was canceled when the frontrunner withdrew his name from contention. Support from this position is essential, as this individual helps shape policy and strategy for the growth and future of the city. As a practical matter, advancement of any of these programs should wait until that position is filled to allow the manager an opportunity to approach and assess the interest of the other stakeholders.

The city does maintain the advantage that most eds and meds are not highly mobile, and in many ways, are a permanent part of the community. In these cases, it is essential for city leaders not to exploit this situation, but rather be aware and cater to the needs of the nonprofits when allowable. The benefit from the partnership must be experienced from both sides if creating a long-term relationship is the goal.

C. STAKEHOLDERS

The institutions that meet the criteria for inclusion are noble, well-financed organizations with endowments and subsidiaries. Their presidents, chief executive officers, board members, and supporters carry heavy influence throughout state and local government. Ensuring their support would require that their institutions benefitted from this voluntary program. Looking for ways to partner with and provide services to these organizations must focus not only on their current but lasting needs. While regulatory compliance through management of first receiver and NIMS training programs provides the participating nonprofits convenience, it does come at a price.

In 2008, cognizant of a change in public and political perception, Drake and Grandview University financed the production of economic impact studies of their tuitions on the local economy. Much the same, local hospitals found themselves under

[91] Emily Schettler, "Rise in Tax-exempt Properties Threatens D.M. Services," *The Des Moines Register*, May 4, 2014, http://www.desmoinesregister.com/story/news/local/des-moines/2014/05/04/untaxed-properties-increase/8684593/.

scrutiny by the U.S. Senate Finance Committee for their perceived lack of providing enough community benefit, which has led to changes in how these programs are calculated and displayed for public oversight.

Statewide, many of these institutions are some of the largest employers and control vast amounts of wealth. Grinnell College, for example, has $328.1 million worth of land and buildings and a $1.38 billion endowment.[92] Located in Grinnell, Iowa, with an annual enrolment of over 1,700 students, and when combined with the local population, comprise over half of the total population in the 590-square mile county. The sheer size and influence of these institutions require that they be made to see the logical interface and interaction points created by this program.

Supplying these organizations with the training needed to ensure annual compliance provides the nexus needed to craft this partnership. While the training will not completely offset the financial impact experienced by these institutions, it will provide them with the means to defend themselves from future scrutiny over their perceived community benefit. Additional costs either are passed on to the consumer who is willing to pay or seek out a more affordable option. The fact that educational and medical institutions provide distinctive services coupled with high, inelastic demand means people will pay regardless of this increase. The five-year phase in also allows participating organizations to budget for and anticipate the impact of these programs.

D. PREPARING TO DEFEND

As policy analysis must consider the unintentional consequences and the impact of the policy on other sectors, it is essential to be prepared to defend these plans with credible information. In terms of counterpoints to potential arguments, the author would expect inquiry on the issue of the escalated cost of health care or education to the consumer. In this case, the elimination of property tax exemptions would add to already escalating health costs. As property tax exemptions shift the tax burden, referred to as a zero-sum tax, the hospitals have a strong argument for their exempt status. Any tax

[92] "Form 990, Return of Organization Exempt from Income Tax," Trustees of Grinnell College, 2011, http://www.grinnell.edu/sites/default/files/documents/990_6-30-12_public_review.pdf, 22–23.

would, per economic theory, produce a deadweight loss, which would prevent people from purchasing goods and services they would otherwise make because the final price of the product is above the equilibrium market price.[93] However, the services they provide are distinctive and demand is highly inelastic, as people will pay regardless of this increase.

Another issue to address would be the length and renegotiation of the agreement. Since all options discussed contain a five-year phase in period, long-term contracts appear to be the most appropriate. An initial agreement of six to eight years would allow both sides to realize the impact of such a program fully. At the conclusion of the expressed time period, the program could be evaluated and adjustments made to the agreement, including termination of the program if it does not provide the perceived value to each of its stakeholders. To be successful, the interests of the private sector partners would need to be understood and addressed.

[93] Woods Bowman, "State and Local Budget Pressures. Property Tax Exemption for Nonprofit Hospitals," The Urban Institute, May 21, 2012, http://www.urban.org/taxandcharities/State-and-Local-Budget-Pressures.cfm.

VII. CONCLUSION

A. REVIEW

This economic impact analysis, examining two non-legislative policy options, looked to answer the question, "How can states sustain the funding of homeland security programs?" The results of the literature review, examination of other studies, and analysis of the data demonstrates that PILOT programs may be a viable option for state and/or local level financing of the previously mentioned programs. The research has determined that in Iowa, the capacity does exist to provide sustainable funding without raising taxes, and without unreasonably overburdening current property tax-exempt community benefit nonprofits.

Based on the findings, the research also confirms results from past studies related to PILOT programs. These programs do generate a comparatively small amount of revenue in relation to overall revenue needed at both the local or state level. These programs should not be seen as a stand-alone fix to balancing local budgets, but within this framework, be viewed as an opportunity to collaborate and provide a mechanism through which expertise is shared between public and private stakeholders. Conversely, the research established that these programs have the potential to reshape the current federal to state to local financing model, by creating a decentralized bottom up process if executed at the local level.

At the state level, despite the cooperative nature of these programs, successful implementation faces several challenges that may derail any efforts. In this study, the rural location of many of these eds and meds might indicate a statistically low probability of a terrorist attack or large-scale natural disaster, which makes it more difficult to sell to the affected organizations. When combined with the lack of domestic events requiring these assets, these elements could discourage participation. Additionally, the intricate nature of relationships between potential state and local public sector agencies and individual private partners must be a priority. These programs can only work if both sides recognize the contribution and benefits derived from this collaborative effort. Lastly, as a

voluntary program that lacks enforcement mechanisms, PILOT programs are subject to the payers' changing attitudes and priorities, which lends a level of uncertainty for the future of the funded programs.

The research also revealed that the revenue generated by application of both the Des Moines 20% and the Proportional Valuation Analysis both demonstrate potential in areas disproportionately dependent on property tax. A caveat is the additional need for large landholding community benefit nonprofits.

B. AREAS OF ADDITIONAL RESEARCH

Other areas of further research identified by this study might include the future of property tax exemption for other well-financed nonprofits. While this study focused on community benefit nonprofits, other segments of well-financed, tax-exempt organizations remain from which additional cooperative efforts and solutions may arise. With changing public and political attitudes on property tax exemption in relation to nonprofits that appear to be more business than charity, further research into the needs of these organizations may uncover additional opportunities to reshape the current system while continuing to build on existing strengths. Although PILOT programs have demonstrated real life success in large urban areas, such as Boston, their success at the state level has not yet been demonstrated and may be indicative of an area in need of additional research.

The contribution of this policy analysis to the knowledge in the discipline of HS studies is that it addresses the impending emerging state and local financial issues. While the results indicate that neither of these policies is a conclusive solution for all states, they instead are frameworks for policy makers to examine alternative funding options. As these programs are heavily dependent on local and state factors, governments interested in pursuing either of these programs would be encouraged to approach their nonprofit stakeholders to identify their needs and interest in collaboration. While PILOT programs continue to increase in participation across the country, additional ideas and best practices will emerge, and ideally, create a new paradigm in how HS programs are funded at the state level.

To conclude, PILOT programs founded on transparent, equally applied, and cooperative frameworks show great promise in their ability to finance HS programs at the state and local level. It is incumbent upon the participants from both the public and private sectors to engage in constructive inquiry over the future of their currently federally funded security programs. As future needs from both sides, as well as the threat, will continue to evolve, the establishment and nurturing of this logical interface may provide the catalyst for the future model for local and state HS delivery.

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APPENDIX A

Police and Fire Service Charge Worksheet
FY13 Budget (WITH FY11 RESPONSE DATA)

Purpose	**Fire Department**	**Comments**
Fire Protection/EMS	26,557,332	FY2013 Budget
Station 8	2,655,733	1/10th of the fire protection/ems budget
50% Purpose Allocation	1,327,867	Assumption
Total Assessed Valuation	8,817,265,706	Taxable, Tax-Exempt, and Non-Taxable
Taxable	6,440,220,679	2011 assessed values of taxable property (includes gas & electric utilities)
Tax Exempt	1,359,490,160	2011 Assessor's Report
Non Taxable	1,017,554,867	Based on County Assessor Estimate
Station 8 Area Valuation	839,739,591	Assumption that area is 1/10.5th of total valuation
Airport Valuation	113,096,259	Per County Assessor Internal Report of 2001 increased by non taxable increase
Airport As Portion of Area	13.5%	Calculation
Station 8 Purpose Building Charge	**178,837**	Calculation
Use		
Fire Protection/EMS	26,557,332	FY2013 Budget
Station 8	2,655,733	1/10th of the fire protection/ems budget
50% Use Allocation	1,327,867	Assumption
Total Station 8 Calls	2,508	FY12 actual fire data
Airport Station 8 Calls	96	FY12 actual fire data
Airport As Portion of Calls	3.8%	Calculation
Station 8 Use Charge	**50,827**	
City-Wide Services		
Fire City-Wide Services	3,872,348	FY2013 Fire Budget less Fire Protection/EMS (General Fund)
City-Wide Purpose Charge	**26,076**	**Calculation**
City-Wide Use Charge	**7,411**	**Calculation**
Grand Total Fire Charge	**263,152**	

	Police Department	
Purpose		
Police Department Budget	52,767,766	FY2013 Budget (General Fund)
Less Direct Police Services	-	Charge to airport for direct services
Net Police Department Budget	52,767,766	Calculation
50% Purpose Allocation	26,383,883	Assumption
Total Assessed Valuation	8,817,265,706	Taxable, Tax-Exempt, and Non-Taxable
Taxable	6,440,220,679	2011 assessed values of taxable property (includes gas & electric utilities)
Tax Exempt	1,359,490,160	2011 Assessor's Report
Non Taxable	1,017,554,867	Based on County Assessor Estimate
Airport Valuation	113,096,259	Per County Assessor Internal Report of 2001 increased by non taxable increase
Airport As Portion of Area	1.28%	Calculation
Police Purpose Charge	**338,418**	**Calculation**
Use		
Net Police Department Budget	26,383,883	FY2013 Budget (General Fund)
Total Police Calls	195,362	FY11 actual police data
Airport Calls	279	FY11 actual police data
Airport As Portion of Calls	0.14%	Calculation
Police Use Charge	**37,679**	**Calculation**
Grand Total Police Charge	**376,097**	
Grand Total Fire/Police Charge	**639,249**	
Prior Year Correction Police Activity	-	
FY13 Charge	**639,249**	

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APPENDIX B

MEMORANDUM OF AGREEMENT TO COMPENSATE FOR FIRE PROTECTION SERVICES
BETWEEN
CITY OF CEDAR FALLS & UNIVERSITY OF NORTHERN IOWA

This Agreement is made and entered into this 12TH day of JULY, 1982, by and between the City of Cedar Falls, Iowa, a Municipal Corporation (hereinafter called "City") and the Iowa State Board of Regents acting for the benefit of the University of Northern Iowa, an agency of the State of Iowa (hereinafter called "University").

WITNESSETH:

WHEREAS, City has provided fire protection to University in the past under an agreement providing for the sharing of costs for that service by University, and

WHEREAS, the present agreement between City and University expired June 30, 1982, and

WHEREAS, it is deemed to be of mutual benefit to the parties that an agreement by University to provide partial support to City in its fire protection efforts be continued, and

WHEREAS, University is authorized to negotiate with City subject to subsequent approval by the Iowa State Board of Regents to pay City an agreed upon amount for the fire protection furnished University for the period beginning July 1, 1982,

NOW, THEREFORE, in consideration of these stated premises and the mutual covenants of the parties hereto,

IT IS AGREED:

1. City will maintain sufficient staff, equipment, and facilities to provide acceptable professional fire service protection to University properties and personnel within the City of Cedar Falls.

2. Duration of this Agreement shall be indefinite, with either party having the right and power to cancel, terminate, and void this Agreement effective July 1 of any year, if such party has given notice to the other of that intention not later than the previous July 1. Either party may, at any time, propose amendments or revisions to this Agreement. Any such proposals shall be in writing and addressed to the Mayor of the City of Cedar Falls when made by University or to the Vice President for Administration and Finance when made by City. Whenever such a proposal is made, representatives of the parties shall meet and discuss or negotiate the matter in good faith. Amendments or revisions may be effective as of the date of mutual agreement.

3. *Using the 1982-83 city budget as a base, University shall pay annually to City each year during the term of this Agreement sixteen percent (16%) of the net expense of the operation of the Fire Department of the City of Cedar Falls. The net expense shall be defined as the actual operating expenses less any amounts paid to City by other governmental entities. Net expense will include amounts paid for Fire Pension and Fire Retirement as well as for normal expenses for operation and maintenance. Net expense will not include depreciation on equipment or facilities unless there is a specific negotiated agreement. Also excluded from net expense would be any indirect costs applied from other departments of City Government. Any income from services performed by the Fire Department would be taken into account in arriving at net expense.*

4. *On or before January 15 of each year, City will submit to the University a Fire Department budget proposal for the ensuing fiscal year, beginning the following July 1. University may, on or before February 15 of each year, question any receipts or expenditures in the proposed Fire Department budget which affect University's payment to City under the terms of this Agreement. Should University disagree with the budget proposed by City or take exception to any of the proposed expenditure items, in no case will University be obligated to pay more than the actual amount established for the 1982-83 fiscal year, incremented annually by subsequently agreed upon amounts. Should University not agree with the proposed budget, City shall either reduce the budget to a level acceptable to University or proceed to operate at a higher financial level, reducing University's share of the net expense.*

   Should the operating expenses proposed by City be viewed as reasonable by University, University will make a good faith effort to request operating support from the State through the Iowa State Board of Regents to fund up to sixteen percent (16%) as its share of the net expense of operation as defined above. However, University will not be obligated to pay more than the mutually agreed amount as provided for in the paragraph above. University shall notify the City on or before February 15 of each fiscal year of the acceptable level of operating support.

5. *The parties further agree payments by University hereunder will be made on a quarterly basis at the end of each quarter, based upon that portion of the fiscal year budget accepted by the University. There shall be a yearly review to adjust the budget cost as set forth above to the actual costs (net expense)*

incurred by the City. On or before September 1 of each year, or within thirty days of receipt of the annual city audit, City will tabulate the net expense as defined in paragraph three (3) for the fiscal year just ended and submit the report of such net expense to the University. Subject to the annual audit of the City, adjustment for the previous year will then be made by credit or charge on the next quarterly payment due from the University.

In WITNESS WHEREOF, the parties hereto have caused this instrument to be signed and sealed by their duly authorized and empowered representatives as of the date first above written.

UNIVERSITY OF NORTHERN IOWA

By: ______________________
Vice President for Administration and Finance

CITY OF CEDAR FALLS

By: ______________________
Mayor

STATE BOARD OF REGENTS

By: ______________________
Executive Secretary

By: ______________________
City Clerk

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APPENDIX C

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PAYMENT IN LIEU OF TAXES AGREEMENT

THIS PAYMENT IN LIEU OF TAXES AGREEMENT, made and entered into as of June 1, 2010 (the "Agreement"), by and between the Board of Regents, State of Iowa (the "Regents"), on behalf of the University of Iowa Hospitals and Clinics, and the CITY OF CORALVILLE, IOWA (the "City");

WHEREAS, the City is the owner of certain property (the "SMF Land") located north of Ninth Street within a certain area of the City known as the Iowa River Landing (the "IRL") and the City has agreed to sell the SMF Land to Regents and Regents has agreed to construct thereon a medical office building which will include approximately 150,000 gross square feet of medical office, clinical facility and related space and certain finish materials, fixtures, furnishings, equipment and appliances for the foregoing (the "SMF" or the "Building" and, together with the SMF Land, the "Property") for the benefit of the University of Iowa Hospitals and Clinics ("UIHC"); and

WHEREAS, once the Building is constructed, the Property will be operated by UIHC which is under the control of Regents and as such the Property will be exempt from taxation pursuant to Section 427.1 of the Code of Iowa; and

WHEREAS, notwithstanding that the Property is exempt from taxation pursuant to Section 427.1 of the Code of Iowa, the City will provide police, fire and other services to the Property and construct and maintain streets, sidewalks, storm water drainage and other improvements and facilities serving or benefiting the Property;

NOW THEREFORE, the Parties agree as follows:

1. In consideration of the foregoing, Regents agrees to make an annual payment (the "Annual Pilot") to the City in lieu of taxes in an amount equal to $1,000,000 (adjusted as hereinafter provided) such payments to be made in perpetuity on or before April 15 of each year commencing April 15, 2013, and to be for the fiscal year (the "Applicable Fiscal Year") ending on the June 30 following such April 15 payment date.

2. The parties agree that the amount of the Annual Pilot for an Applicable Fiscal Year (i) shall be increased for each Applicable Fiscal Year to an amount equal to the sum of (a) $1,000,000 plus (b) an amount equal to 28,643 multiplied by the Differential Tax Levy Rate for such Applicable Fiscal Year and (ii) shall be reduced (but not below $0) in the event that all or any portion of the Property loses its exemption from taxes because of a sale, a change in use, a change in law or for any other reason, such reduction to be by an amount equal to the amount of tax revenues, if any, received by the City during the Applicable Fiscal Year as a result of taxes levied by the City with respect to the Property for such Applicable Fiscal Year.

For purposes of this Agreement, the term "Differential Tax Levy Rate" shall mean the amount (expressed as dollars per thousand dollars of valuation) by which the sum of the CVI District Tax Levy Rates for such Applicable Fiscal Year exceed $34.91281 per thousand dollars of valuation, the CVI District Tax Levy Rate for the fiscal year ending June 30, 2010 (the "Base

Fiscal Year") and the term "CVI District Tax Levy Rate" means the aggregate combined tax levy rates for Johnson County, Iowa, the City of Coralville, Iowa, the Agricultural Extension District, the Kirkwood Community College, the Iowa City Community School District, the Area Education Agency 10, the State of Iowa, the Johnson County Assessor, and any other governmental entity or taxing authority levying taxes against property in Johnson County, Iowa for such Applicable Fiscal Year.

IN WITNESS WHEREOF, Regents has executed this Payment In Lieu of Taxes Agreement all as of the date first above written.

BOARD OF REGENTS, STATE OF IOWA

By: Robert Donley
Name: Robert Donley
Title: Executive Director

STATE OF IOWA)
) SS:
COUNTY OF Polk)

The foregoing instrument was acknowledged before me this 29th day of June, 2010, by Robert Donley as the Executive Director of Board of Regents, State of Iowa, on its behalf.

Ruth Ilene Tuttle
Notary Public

RUTH ILENE TUTTLE
Commission Number 731888
My Commission Expires
December 9, 2013

[Seal/Stamp]

[Execution Page for Payment In Lieu of Taxes Agreement]

IN WITNESS WHEREOF, the City has executed this Payment In Lieu of Taxes Agreement all as of the date first above written.

CITY OF CORALVILLE, IOWA

By: _____
Jim L. Fausett, Mayor

By: _____
Thorsten Johnson, City Clerk

(Seal)

STATE OF IOWA)
) ss
COUNTY OF JOHNSON)

The foregoing instrument was acknowledged before me this 24 day of June, 2010, by Jim L. Fausett and Thorsten Johnson, as the Mayor and City Clerk of the City of Coralville, Iowa, respectively, on its behalf.

KEVIN D OLSON
Commission Number 727324
My Commission Expires
3-9-2013

_____
Notary Public

[Seal/Stamp]

[Execution Page for Payment In Lieu of Taxes Agreement]

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